

**MANAGING FOR SURVIVAL:
REAL ESTATE DEVELOPMENT IN TEXAS 1980-1989**

by

Thomas James Melody
Bachelor of Business Administration
University of Texas 1983

Master of Business Administration
Southern Methodist University 1984

and

James Franklin Penney Wagley
Bachelor of Arts
University of Virginia 1983

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Signature of Authors _____

Thomas J. Melody
Department of Architecture
July 31, 1989

James F. Wagley
Department of Architecture
July 31, 1989

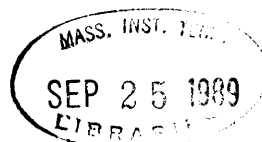
Certified by

Gloria Schuck
Lecturer, MIT Sloan School of Management
Thesis Supervisor

Accepted by _____

Michael Wheeler
Chairman

Interdepartmental Degree Program in Real Estate Development



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Thomas James Melody
James Franklin Penney Wagley

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ABSTRACT

History has taught us that real estate markets are cyclical in nature. As a result of the economic decline in the Southwest during the 1980s, development companies in Texas have diversified and restructured their organizations. They have evolved from speculative builders into full service real estate companies.

It is important for investors, developers and other professionals involved in real estate to understand the cyclical nature of their business. Why? Change in market conditions creates opportunities. Investors or developers who foresee change prior to their competition may be able to position themselves to take advantage of the change. This thesis explores the changes which occurred in the real estate markets in Texas during the 1980s and evaluates the reactions of developers.

Chapter One, "From Boom to Bust," explains the cyclical nature of real estate. It summarizes the "glory days" in Texas real estate from the late 1970s to the early 1980s, and examines the causes behind the decline. Chapter Two, "The Initial Reaction," evaluates how and why developers reacted to the deteriorating market conditions in the early stages of decline. Chapter Three, "Restructuring," examines how developers have altered the structure of their operations, marketing, ownership, and financial obligations. Chapter Four, "Diversification," looks at how developers have attempted to mitigate risk and create other sources of revenue. Chapter Five, "Conclusion," summarizes the changes within the industry over the decade of the 1980s and the lessons which can be learned from the experience of developers during this time period.

Thesis Supervisor: Gloria Schuck
Title: Lecturer, Sloan School of Management

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INTRODUCTION

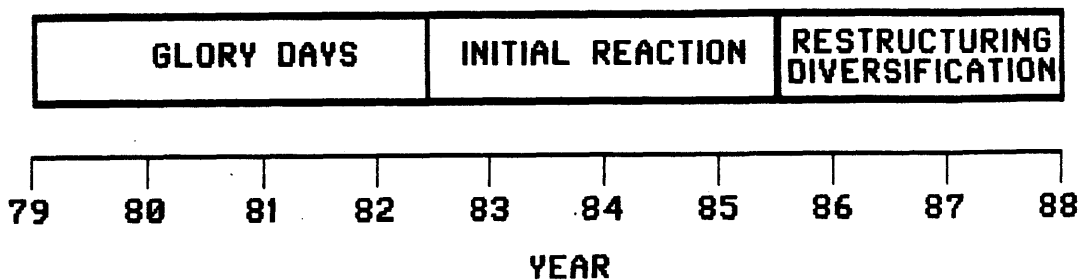
No market in the United States is immune to the cyclical nature of real estate. New York, Boston, Atlanta, Detroit and other cities have experienced down cycles, however, none to the extent which Texas did in the 1980s. During this decade there were sharp contrasts between the vitality of real estate markets in different areas of the country. While the East and West coasts enjoyed a period of growth, the Southwestern region of the United States experienced one of the worst recessions in living memory. This thesis asks: how have development companies in Texas responded to the down market of the 1980s?

Our objective in this thesis is to answer this question and to analyze the history of the Texas real estate market in the 1980s. The confluence of a number of factors set against an unreserved optimism shared by many participants in the development field, resulted in a quick deterioration of the Texas markets. This was a grand game of musical chairs. However this was a game where some people heard the music stop long before others did and set about restructuring and diversifying their organizations. Others kept marching along in a musical reverie that stopped abruptly, rudely leaving the unprepared developers, bankers and investors standing about blaming each other for their problems. Developers in other parts of the country should listen to and learn from the experiences of Texas. Developers who take heed of the old

adage "it is easier to learn from others' mistakes than to experience those mistakes yourself," should benefit.

Our research was conducted by examining literature and interviewing 35 professionals involved in the real estate business in the State of Texas. We talked extensively with the principals of ten development companies (see Appendix A for company descriptions) that had been active in the "boom" and "bust" cycle in Texas real estate. They were primarily involved in the development of office, industrial and/or multi-family properties. Seven of these companies were listed in the National Real Estate Investor's "Top 100 Developer Survey 1988". Additionally, we visited with several Texas-based consultants, bankers, brokers, and pension fund advisors. Our objective was to gain a clear understanding as to why the Texas real estate market declined, and how developers adjusted to changes in the marketplace.

The following time-line illustrates three distinct stages which occurred during the Texas real estate cycle of the 1980s. This thesis examines these phases in chronological order.



In Chapter One, we look at the market conditions existing in the late 1970s and early 1980s, and the reasons why developers were building at an accelerating pace during this period. In addition, we examine the conditions during the mid-1980s contributing to the market's deterioration.

In Chapter Two, we analyze how and why Texas developers reacted as they did during the initial stages of decline. In Chapter Three we examine how these developers restructured during the decline and to what extent they have been successful. Chapter Four analyzes the diversification techniques utilized by Texas developers in the down market. Finally, we examine how the down market has affected the industry and the lessons which developers can learn from the Texas real estate debacle of the 1980s.

CHAPTER 1: FROM "BOOM" TO "BUST"

The late 1970s and early 1980s represent a period when developers in Texas enjoyed prosperity and wealth. Everything was falling into place: there was a heightened demand for their product; there were very few constraints on their ability to deliver new buildings; credit was in ample supply; and generous tax regulations allowed them to syndicate equity, generating substantial upfront profits. Gradually, the positive forces which drove the market between 1975 and 1982 began to erode. Between 1981 and 1986 the amount of vacant suburban office space in Houston increased nine-fold, from 4 million square feet to 36 million square feet. In fact, in 1986, the amount of vacant office space in suburban Houston exceeded by three times the amount of occupied space in the central business district of Baltimore, Maryland. The occupancy rate of suburban office space in Houston fell from 94% in 1981 to 71% in 1986.

As overbuilding became pronounced and vacancies escalated, developers saw a drop in rents as well as a demand by tenants for more generous concessions. Developers in Texas experienced a fundamental economic problem: supply exceeded demand. For a variety of reasons, the disparity between supply and demand widened, resulting in further deterioration of the real estate markets throughout Texas and the rest of the Southwest.

The Cyclical Nature of Real Estate Development:

Regional real estate markets are cyclical because they are closely tied to both the regional economy and the national/global economy. Development projects are local in nature and thus depend upon the demand within a specific market. However, the national/global economy can affect the vitality of projects either through fluctuations in interest rates, inflationary expectations, or a heightened demand for a specific product in which a region has a monopoly on producing.

The more diversified a regional economy is, the less prone its real estate market is to fluctuations. Admittedly, there are likely to be fluctuations within certain sub-markets. However, these fluctuations are often driven by developers and their perception, or lack thereof, of demand within a given marketplace.

Population shifts and demographic make-up also contribute to altering real estate markets. For instance, in the late 1960s and 1970s, there was an increase in people and companies migrating to the Sunbelt states. This created opportunities for developers in Texas. At the same time, the make-up of the work force was changing. Two income families were becoming the norm and with more women entering the work force, there was an increase in the demand for office space. On a global scale technological innovation, fluctuations in exchange

rates, trade regulations, and fiscal deficits impacted on the economy of the United States, and in turn, the real estate industry. Changes in these factors created disequilibrium within real estate markets and resulted in either prosperity or down cycles.

Predicting real estate cycles is problematical and when a market turns down, so is its duration. Economic conditions dictate the vitality of markets. Even though positive signs within a specific region's economy may exist, negative factors may contribute to a further deterioration within the market.

The importance of market cycles must not be overlooked because they create opportunities for developers/investors and they alter the way in which developers conduct their business. Change creates opportunity. Developers who react to change either through perception or by chance often are able to garner benefits through positioning themselves to take advantage of an opportunity. When changes occur, businesses must adapt in order to compete effectively.

The Glory Days:

For the development industry in Texas the late 1970s and early 1980s represented a "boom" period. On the demand side the economy was expanding fed largely by a growth in the oil business, an in-migration of people, and a dramatic rise in the number of women in the work force. This led to an increase in the absorption of office space, a heightened

demand for residential units, and an increase in the consumption of goods and services which positively impacted the demand for retail space.

"Everyone felt oil was going to \$50. Everyone was riding on the top of the world and credit was everywhere." (Hugh Caraway, Senior Vice President, Property Company of America)

"We came out of the mid-seventies in a flourish." (Trammell Crow, Founder, Trammell Crow Company)

On the supply side, there were few barriers to entry. Credit and land were in ample supply. The banks and S&Ls were uncharacteristically aggressive in lending money which fueled the increase in building. In addition, the lack of strict zoning regulations, coupled with a lenient approvals process made it easy for developers to locate a site and begin construction.

Tax legislation also played an important role in motivating developers to build. The tax syndication business enabled developers to pocket money upfront and investors to realize enormous tax savings. Syndication was the impetus behind many developments between 1981 and 1985.

"We were no different than anyone else. We would get a loan for 90% of the project cost and syndicate half of the ownership for an additional 30%. We would consistently create a 20% profit upon project completion. After the Tax Act of 1981, syndication was really the business." (Hugh Caraway, Property Company of America)

In addition, people's expectations, optimism, and emotions fueled the business.

"Developers always see the glass half full, not half empty." (Paisley Boney, Senior Vice President, Prentiss Properties)

People expected that the rise in land and oil prices would continue. This fueled speculation and brought outsiders unfamiliar with the development business into the industry. Many people perceived real estate as the vehicle through which they could make fortunes.

The real prosperity which Texas developers experienced lasted from 1975 to 1983. In the latter years, warning signals began to arise, first in Houston, then in Austin and San Antonio and finally in Dallas. According to one Texas developer:

"Prudent investors and developers went to the sidelines in 1984 but rookie developers surfaced to replace the old pros."

Optimism was evident throughout the different markets and many developers continued to build. Between the years 1980 and 1985 approximately 85 million square feet of office space was built in Houston. In fact, during this five year period developers in Houston built one-half of the space which currently exists in that city.

While some saw troubles ahead, no one really grasped the severity of what was about to occur. In the minds of many, the real estate industry during 1982-83 remained a bright spot in the economy. Banks experiencing trouble with their oil and agricultural loans saw it as an opportune time to allocate assets into real estate. Developers were concerned, but not enough to cease building.

"In 1982, we saw the overbuilding and the decline coming. However, on a scale of 1 to 10, we saw a 4. What we actually received was a 9.9." (Louis Sklar, Executive Vice President, Gerald D. Hines Interests)

The Cause of the Decline:

The problem Texas developers faced starting in 1982 was that supply had clearly outgrown demand. The factors which contributed to an over-supply were: the Tax Act of 1981, which allowed for lucrative syndication deals; an over-supply of credit; the lack of sufficient barriers to entry; and optimistic attitudes which motivated developers to build.

"The development train was running down the track... the only way it could stop was to crash." (Louis Sklar, Gerald D. Hines Interests)

"The mid-1980s was like a plane crash to the developers. If only one thing goes wrong, you can still land the plane, however, if three or four problems occur simultaneously, you are headed for a crash landing. The decline in the price of oil, the Tax Reform Act of 1986, and the massive overbuilding all happened in sequence, causing a tail spin that you couldn't pull out of." (Hugh Caraway, Property Company of America)

The Tax Act of 1981 had an enormous impact, not only on Texas and other Southwestern markets, but also nationally. The Tax Act stimulated the real estate development business in the early 1980s and was partially responsible for the "boom" in Texas, but it contributed eventually to the demise of many developers. The reason, quite simply, was that it was abused. The Tax Act loosened regulations regarding the depreciation of properties and allowed projects to be syndicated so that the tax benefits could be passed through to investors. The tax

benefits were so generous that demand for syndicated real estate deals from an investment standpoint was high. Wealthy individuals were able to shelter their income from taxes by taking substantial write-offs which were often many times in excess of their original investment. There was no delineation between active, passive, and portfolio income that we know today. Essentially, the Tax Act of 1981 created a deep pool of capital for developers.

*"The Tax Act of 1981 was criminal. The tax breaks that were given created a huge influx of capital and consequently uneconomic, tax driven development."
(Louis Sklar, Gerald D. Hines Interests)*

*"The Tax Act of 1981 was really a mistake because it allowed tax benefits to make economic sense out of development...it resulted in a lot of overbuilding."
(Jerry Bonner, Treasurer, Paragon Group)*

Many developments occurred solely for tax benefits and the fees which the developer generated in return for building, leasing, and managing the project. When Congress passed the Tax Reform Act of 1986, the effect on real estate development was dramatic. Indeed, the effect was even more pronounced in Texas where developers have a higher percentage of their total costs in the construction of the building rather than in the land. In the Northeast and California, land values often represent a higher percentage of the total cost of a project than they do in the Southwest. Since land is not a depreciable asset for tax purposes, developers in Texas received greater benefits due to the loose regulations of depreciation, than did their counterparts in other parts of the country. The Tax Reform Act of 1986 reclassified income into three different levels and lengthened depreciation

schedules. The deals which were created for tax purposes no longer made economic sense after 1986.

"The problem is that the Tax Reform Act of 1986 effectively eliminated all of the tax motivated investors (tax freaks) from the marketplace and that poor economic deals which may in prior times have been bailed out by the use of tax syndication will now have to stand on their own merit, which very often are minimal." (Ken Townsend, Managing Partner - Dallas office, Kenneth Leventhal & Company)

Supply of Credit:

In addition to the lack of stability which the government created through alterations in tax legislation, changes were also taking place in the lending practices of financial institutions which further contributed to the overbuilding problem. The deregulation of the S&L industry allowed the institutions to lend on commercial real estate ventures. A major dilemma existed within many of the S&L's: lending officers often were inexperienced in evaluating commercial development, yet their compensation was based on the number of deals they originated and the amount of front-end fees they collected. Frequently, lending officers were more interested in their volume of lending and the amount of fees they collected than in the quality and feasibility of their loans. The S&Ls dealt primarily with third tier developers and class "C" properties. While class "A" buildings do not compete with class "C" buildings, fluctuations in rental values resulting from massive overbuilding were felt throughout the market. When third tier developers were forced to drop their rents to remain competitive, it ultimately impacted the top tier developers. When tenants saw rents dropping, they visualized

it as an across the board phenomena rather than a single event.

*"The lenders are partially responsible for the problems we have...they loaned lots of money to people who had no experience and little judgement."
(Trammell Crow, Trammell Crow Company)*

In addition, commercial banks altered their lending practices, and this contributed to the over-supply of credit available to developers. Throughout the 1980s, many banks began to make open-ended loans without the permanent takeouts which had been traditionally required, thus making themselves susceptible to market risk. The banks became long term lenders by default, without adequately knowing how to underwrite long-term leases. Furthermore, as the outlook of the agriculture and the oil businesses became bleak, banks began to shift more of their assets into real estate.

"Developers are programmed to build and lenders are programmed to lend. Everyone felt that their case was special and for one reason or another they would succeed." (Bill Cooper, President, Paragon Group)

*"Real estate lenders at commercial banks complained about the risks they were taking but closed their eyes and made deals to earn fees and contribute to corporate earnings, which was their real mission."
(Larry Melody, President, L.J. Melody & Company)*

In the late 1970s and early 1980s real estate loans became some of the most profitable assets within a bank's portfolio. As a result, the senior management of these institutions emphasized the importance of loan growth in real estate. When problems began to appear, many commercial banks were caught in an unpleasant situation concerning the land loans which they had made.

"Developers have a certain power of persuasion. They indicated to the banks that unless they could get money to develop, that the cost to carry their land loans would sink them. Together, the developers and the banks decided to roll the dice. The banks would lend the money to pay off the land loans since there seemed to be no alternative. By doing this, the banks also kept a bad land loan from becoming a non-performer." (Steve Field, Executive Vice President, Texas Commerce Bank)

Many banks stayed away from charging off loans in order to "dress up" their financial statements. Investors in the early 1980s were already aware of the increase in the level of non-performing loans held by the Texas banks due to problems with the regional economy. Classifying loans as non-performing and then charging them off against income would have increased investor awareness and negatively impacted the banks' cost of funds. Thus, banks often rolled their land loans over into construction loans. This resulted in more unnecessary building construction, and contributed further to the problems within the banking system in Texas.

Lack of Barriers to Entry:

Aside from the problems associated with changes in tax legislation and the over-supply of credit, a problem which was unique to the Southwest was the lack of barriers to entry within the development industry. The absence of zoning regulations and the availability of land made it easy for developers to locate a site and begin construction. In the Southwest there is a general lack of governmental control with regards to zoning, land use and entitlements. If zoning is in

place, developers can often get it changed quickly. In the Northeast and California, however, strict zoning and architectural regulations are prevalent.

In addition, the advent of linkage fees, requiring developers to compensate a community for the external effects of their project, has created barriers to entry in other parts of the country. In more cases than not, developers in the Northeast and California must have deep pockets and a proven track record in order to undertake a project. Such governmental regulations limit the supply of product and help maintain a supply/demand equilibrium. However, such regulations are rare in Texas to this day. Whether these regulations are right or wrong is a question open to debate. However, the fact is they do serve as barriers to entry by lengthening the development process and making it more difficult and more expensive to obtain final approval on a project.

Optimistic Attitudes:

Coupled with the conditions which led to an over-supply of product was a factor rarely mentioned in print; optimistic attitudes. Egos, confidence and greed played a major role in the problem of overbuilding in Texas during the early 1980s.

*"Greed had to play in the overbuilding. Everyone was playing a volume game or a big building game."
(Paul Hinch, President, Property Company of America)*

An opinion frequently offered by developers was that development was the only thing they knew how to do. It's hard

for developers not to build. Many developers commented that they were guilty of being overly optimistic.

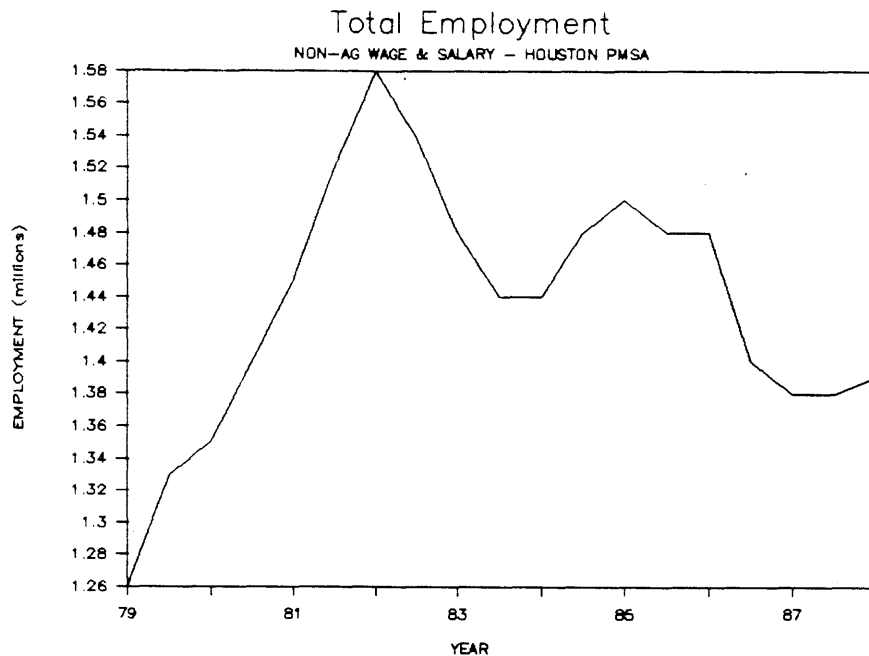
Decline in Product Demand:

While developers were seeking and finding building opportunities at a frenetic pace, tenant demand failed to grow fast enough to support the new developments. In 1982 approximately 23 million square feet of office space was built in Houston, while only 8 million square feet was absorbed. As the market declined, there were many tenant foreclosures which further hurt property values and ultimately the developers.

The problem was especially severe in markets such as Houston, where many businesses were involved in oil and gas exploration and production. The posted price of West Texas Intermediate Crude fell gradually from \$39 a barrel in 1980 to \$28 a barrel in late 1985. In early 1986, the price per barrel collapsed to \$13 when OPEC attempted to increase market share at the expense of price per unit. As oil prices declined, businesses failed and/or sold off divisions. It was extremely difficult for oil production companies to remain profitable when prices "nose dived". As a result, the number of domestic working rigs declined from a high of 4,520 in 1981 to approximately 700 in June of 1986.

Developers found that their tenant base was not immune to the cyclical nature of the economy. In 1982, tenants began to contract by laying off employees and by reducing the amount of

space they leased. The following graph illustrates the sharp drop which occurred in Houston's total employment.



Source: Bureau of Labor Statistics

The "bust" had occurred. The gravity and length of the down market took many developers by surprise. Development is a cyclical business, but everybody thought that the down cycle was only going to be a short-term phenomena.

*"Nobody knew the hole would get so deep or so wide."
(Don Shine, Regional Partner, Paragon Group)*

*"Everyone forgot about Economics 101...that \$1 in circulation is worth \$7, and that it can work in reverse."
(Don McCrory, Senior Vice President, Gerald D. Hines Interests)*

What occurred was a total reversal in the forces which inspired development. The Tax Act of 1981, the lack of barriers to entry, the speculative lending practices of financial institutions, and the greed and carelessness of some

developers led to a massive over-supply of product. Tenant demand evaporated as the regional economy turned down, and the Tax Reform Act of 1986 cut off the benefits which many developers and investors had enjoyed. The fact that all of these problems occurred in sequence contributed to the severity of the problem.

In the following chapter, we analyze the reactions of developers during the initial stages of decline. When rents fell below levels at which developers could meet their debt obligations, they were forced to restructure. In Chapter Three we examine how developers restructured from a management, financial and marketing standpoint. In Chapter Four we study how developers have diversified both geographically and functionally in order to generate alternative sources of revenue.

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CHAPTER 2: THE INITIAL REACTION

In the early stages of the down market, there were three themes recurring in case after case: the ignorance of warning signals; the difficulty in exiting from the business; and the emotional issues which weighed heavily on the decisions of many developers.

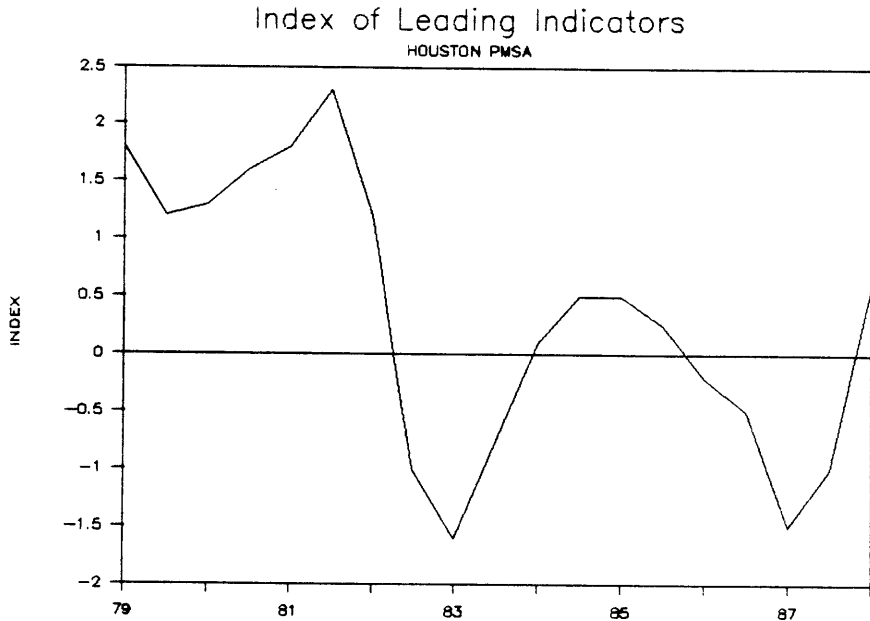
Ignorance of the Warning Signals:

Most developers recognized that in 1983 the Texas real estate market was deteriorating. Nonetheless, most admit they did not take steps to prepare for it. Essentially, the developers misjudged the severity of the recession and initially most felt they could simply "ride out" the downturn. As in the past, developers thought that a strong growth in market demand and high inflation would "bail out" even the marginal projects. Most believed the down market at the beginning was a short term "blip", not a massive overbuilding.

The most successful companies were the ones which reacted to market conditions quickly and thoughtfully. The development process can be a lengthy one, even in states such as Texas. Therefore, if a developer begins a project when warning signals exist, by the time the project comes on line, the market may have severely deteriorated. For instance, in Houston in 1982-83 there were approximately 46 million square feet of office space completed, while during the same time period, absorption was less than 18 million square feet. The

result was that the market's office occupancy rate declined from 90% to 77% in only a 24 month period.

Developers who had projects coming on line in 1982 and 1983 felt the effects of a downturn in the regional economy. The following graph illustrates that Houston's "index of leading indicators" started its downward slide in mid-1981, and actually reached its low point in late 1982. The warning signals were there for those that took the time to notice.



Source: Center For Public Policy

Timing is critical in many businesses, however it is especially important in industries such as real estate development where there is a time interval between when an opportunity is perceived and when a product is finally delivered. Therefore, early recognition of harbingers to decline is important, because it allows developers to have more flexibility in determining their strategy.

"Once things start going down, your opportunities for solutions narrow." (Don Williams, Managing Partner, Trammell Crow Company)

If a developer chooses to ignore the warning signs and market conditions deteriorate, the competition will dictate how the developer reacts. If, however, developers react early to changing market conditions, they are likely to be in a stronger position from a competitive standpoint.

In addition, developers should recognize their tendency to be optimistic when making market projections.

"In fairness, I believe all developers owe it to themselves to prepare a worst case, best case, and most probable case projection for his real estate company. I would caution here that it has been our experience that internal cash flow projections have in many instances been too optimistic." (Ken Townsend, Kenneth Leventhal & Company)

Developers should pay closer attention to their downside risk. They must evaluate economic conditions, local demographics and expected competition. They need to analyze what might happen under several different scenarios. The Paragon Group, under the guidance of Bill Cooper, recognized in the early 1980s that problems existed within given markets. A prominent Dallas based developer stated:

"When Paragon stopped building in Texas in 1984, the competition thought they were foolish and that they would no longer be a player...today Paragon is being applauded and the same critics think Cooper is a genius. Paragon's position soon became obvious, to remain liquid. Cooper decided that if things didn't continue to go well, that he didn't want to go broke."

Exit Barriers:

We found that there were three factors which served as barriers to firms leaving the development business: sizeable overhead, competitive forces, and the length of the development process.

In the good times, many developers integrated vertically. For instance, some companies had established construction and/or architectural divisions. As a result, they had employed more people to staff the new businesses they had entered. When the real estate market turned soft, it was hard for them to cover their overhead. They had to try to find ways to employ profitably these workers in other phases of the business or let them go. Either result can be expensive and stressful.

Competitive forces also make it difficult to exit the business. If developers decide to liquidate in order to raise cash in tough periods, it is unlikely that they stand alone in their predicament. For instance, in Texas, many developers were forced to sell a portion of their portfolios during difficult periods. The market outlook was not strong and investors were picking up buildings at only a fraction of their replacement cost. Hugh Caraway of Property Company of America indicated that their company wanted to sell all of their assets in 1985. However, since prices were falling so rapidly, it was hard for them to get what they thought was a fair price.

"We would be negotiating a price, but the market kept declining and potential buyers would consistently keep reducing the offer price...we didn't have the time or financial staying power to be tough negotiators." (Hugh Caraway, Property Company of America)

Foresight and timing are critical, especially when assets are illiquid. Unfortunately, many developers didn't have the option to hold their assets and were forced to sell at the most inopportune time.

The length of the development process often times inhibits developers from exiting the business. A developer may become financially committed to a project by buying a site or signing a lease after which market conditions deteriorate. When analyzing projects, developers should look for more than one way out of the deal. Developers should look to optioning ground, and only committing themselves if the costs are not exorbitant, at the last possible moment. A developer becomes vulnerable if emotionally attached to a project during the planning and development phase. As a result, it is easy for one to make a poor judgement on a project's viability.

"Many times when the market begins to decline, the deal is in progress and the land has been purchased...because we have often been involved in the deal for so long, it is emotionally hard and very expensive to stop the development process." (Ray Morgan, Executive Vice President, The Travelers)

Emotional Issues:

Pride plays an important role in development. In the past,

many developers had been reluctant to sell off properties or to curb the growth of their companies. Some developers tried to hold onto their properties without restructuring for fear of letting their competition know that they were in trouble. One developer stated:

"You never know who is swimming naked until the tide goes out."

When a company restructures, the competition is bound to find out some of the confidential details of a developer's corporate and financial position. It was difficult for some developers to come to grips with this fact and, as a result, some waited until the last possible moment to acknowledge publicly that they were in trouble. As one developer noted:

"It is simply human nature to want to avoid or postpone the public embarrassment that goes with acknowledging failure."

Most developers agreed that the most difficult part of managing in decline was the emotional decisions which were involved. A common response from developers was "it is difficult to tell yourself and your people to stop doing business...that's all we know how to do". It was a personal embarrassment for most developers to give properties back to lenders. According to one prominent developer:

"The hardest thing about defaulting on a loan is the phone calls that you have to make to lenders who have counted on you and whom you have relationships with. By making the phone calls, you admit to yourself that you can't do it and then you let the rest of the world know."

Developers who experienced project failures were as concerned

about the emotional effects as they were about the financial repercussions. One developer stated:

"When I realized that we were not going to make it and were going to fail, I told my wife that I needed to get out of this business...I suggested that we go to Vermont and buy an inn and enjoy life. Everyone had self doubts. Some of my friends could not look me in the face because they were so distraught about failing...marriages fell apart. When your company is failing, it is an incredible personal destruction...it's not the money, it's the ego that's crushed."

The developers who experienced difficulties ignored the warning signals which existed in the early 1980s. Many chose to disregard the negative signs for emotional reasons. When they finally realized that they had to react, exit barriers inherent in the industry, their competition, and the relationships they had with lenders forced them to restructure or diversify.

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CHAPTER 3: RESTRUCTURING

Despite the warning signs developers reacted slowly to the market downturn in Texas. However, when rents fell below a level where developers could no longer meet their debt payments, developers were forced to react. Some brought in equity partners, while others restructured their debt obligations. In most companies, however, the management structure remained the same. This chapter examines how developers have or have not restructured from an organizational, financial, ownership and marketing perspective.

Organizational Restructuring:

The down market in Texas did not force developers to make changes to the management structure of their companies because most development companies in Texas are privately held. The partners of the organizations were the managers and owners and they alone made the decisions. As a result, they sought other ways to remedy their troubles apart from changing management and removing themselves.

Many development companies were forced to shift the focus of their operations to seek alternative sources of revenues. While these companies expanded into other areas of development either through functional, product or geographic diversification, their basic management hierarchy tended to be the same post-crash as it was pre-crash. The subtle changes

which were observed within the management structure of organizations had to do more with a change in the operations of the company than philosophical differences between partners.

In a response to the down market, many development companies such as Gerald D. Hines Interests and Property Company of America, centralized their cost and financial controls. As a result, the upper management became more involved in the day to day operations of the company. The style of their management changed rather than the structure of their management hierarchy. The managing partners became more "hands on".

Throughout the 1980s many Texas development companies were structured as a series of individual partnerships. Partners were compensated with a minimal salary and an equity interest in the buildings for which they were responsible. Therefore, in a strong market an ambitious partner's compensation could be sizeable. Young partners were often optimistic and tried to push deals through the pipeline. In fact, as a young partner of a national development company stated:

"The regional partners were under pressure to develop...if you didn't develop, you didn't make money and you risked losing your job."

Often when properties got in trouble and suffered cost overruns or operating deficits, the financial liability had to be covered by the older senior partners since the junior partners often failed to meet their share of cash calls.

Financial Restructuring:

In a declining market developers are often faced with liquidity problems and forced to restructure financially. They do so in two different ways: judicially or non-judicially. When problems first started to arise in Texas, national and regional developers tended to negotiate individual relief on specific properties with each lender. However, as times worsened and more deals experienced problems, "workout" consultants were hired to negotiate a global restructuring of the entire portfolio. An irony was that companies whose financial conditions were weak, often had a better chance of negotiating a viable "workout" than did companies who were current on their debt obligations.

A non-judicial restructure, commonly referred to as a "workout", is a complex process which requires full cooperation between the developer and those creditors who have a financial interest in the developer's projects. Developers generally prefer a "workout" because: (i) they avoid the negative publicity of a foreclosure or bankruptcy; (ii) they may avoid the significant income tax liability resulting from a foreclosure or bankruptcy "sale"; (iii) they generally retain leasing and management activities at market rate fees; (iv) they have a chance to wait out the down markets and perhaps recover a part of their equity investment and; (v) they delay "settling up" on any personal liability or guarantees on the debt.

"It would be unlikely that a knowledgeable debtor would continue to struggle with a property having limited upside potential, a very real potential of a future deficiency and no ability to pay recourse liabilities or his federal income taxes. That would put the debtor in a position of having to file for protection. If you are an unsecured or under-secured creditor, you are entitled to participate on a pari passu basis (meaning on an equal basis with all other creditors) in the residual interests of a liquidated bankruptcy...most of those residual interests cover only a fraction of the deficiency held by the creditors." (Ken Townsend, Kenneth Leventhal & Company)

Developers and consultants alike suggested that the borrower's plan should stress full disclosure from both a personal and corporate financial standpoint and be directed at all of the developer's lenders simultaneously. To proceed with a "workout" there were two initial hurdles to be overcome: creditors had to trust and have confidence in the developer's ability; and the debtors had to prove to the creditors that the rewards under a "workout" were greater than under a liquidation.

"In 1986, we scheduled all debt and all assets and went to our lenders...we revealed a plan that showed we would not be able to meet our debt obligations and that it would be in the best interest of the lenders to work with us...what we got out of the restructure was our survival." (Robert Duncan, President, Transwestern Property Company)

A Houston-based developer pointed out that in a workout situation the insurance company lenders were much more sophisticated than the banks and tougher negotiators, even though they typically lent on a non-recourse basis. The insurance companies generally had liens on assets that were complete and partially leased. They didn't have regulatory

accounting problems to worry about and they had the ability to hold the real estate for the long-term.

Robert Duncan of Transwestern Property Company indicated that the first thing he did when he realized he had to restructure financially, was to develop a plan. The plan was consistent with Transwestern's survival and still in the selfish best interest of the lenders. Once Transwestern decided upon a course of action, they immediately set up a conference with each of the banks, one at a time. Duncan indicated that the meetings often involved everyone from the loan officer to the bank president. In every situation it was necessary for Transwestern to show the lenders that it was in the lenders best interest to do the workout.

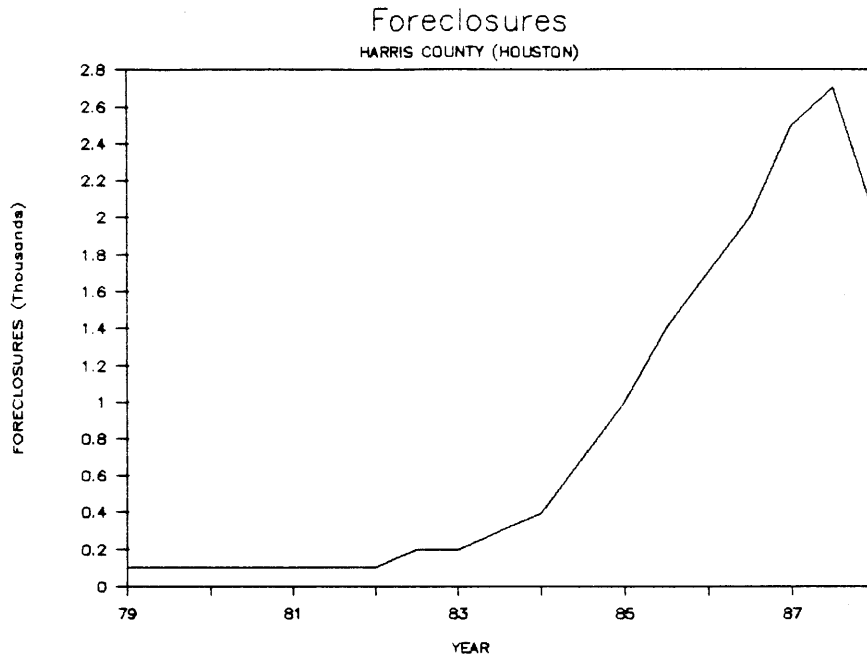
Don McCrory of Gerald D. Hines Interests indicated that when the market first began to decline, Hines subsidized properties by financing operating deficits on individual properties out of their own pockets. When it became clear that a recovery was a long way off, they changed their philosophy. They identified their non-recourse loans and either restructured them in the form of a cash flow mortgage, or gave the properties back to the lenders. McCrory stated that Hines was no longer willing to come out-of-pocket if the properties required substantial cash to be contributed, unless they could realistically predict a recovery of the new cash invested. If necessary, they were willing to forfeit their real or imputed equity to the lenders in order to preserve their cash position. Louis Sklar of Hines indicated that by 1986 the

company had decided that it was not in their best interest to keep feeding the deals where there was no personal recourse and little chance to recover additional new investment capital.

"Unless we stopped paying, not a single one of our permanent lenders would do anything to alleviate our short-term cash flow problems. The only error Hines made, was not restructuring some of our troubled Texas properties earlier...we lost a lot of money by carrying deals." (Don McCrory, Gerald D. Hines Interests)

Even though they were current on all of their debt obligations with the lenders, Hines stopped paying on some loans in order to get the lenders' attention. As a result, Hines was able to renew and extend some of their existing notes. Indeed, the Hines organization was not alone in their predicament. In many cases, developers were frustrated that they could not work with lenders until they had stopped paying on their debt obligations.

Although many of the national or regional developers in Texas were able to restructure their problem loans in the form of a workout, others were less successful. Many properties were foreclosed upon as a result of the lenders' lack of confidence in the developers' abilities. Some properties suffered the same fate as developers were unsuccessful in establishing viable alternatives to foreclosure. As indicated by the graph on the following page, the number of foreclosures in the Houston area increased from approximately 100 per year in 1982, to 2,700 per year in 1987.



Source: Foreclosure Listing Service

Developers that were solvent and perceived by the creditors as being able to pay, were less likely to restructure financially than if they had been insolvent. These companies were often held to a higher standard and only able to partially restructure their debt portfolios with lenders because of their strong relationships. For instance, Paragon was able to gain some "relief" in the form of loan extensions, accruals and/or interest rate adjustments. They went to the creditors not asking for forgiveness of debt, but instead, requested that the creditors work with them to alleviate some of their cash flow problems. Similar to that of most developers, Paragon's stance, as indicated by Doug Knaus, Vice President and Manager of Paragon's Houston office, was to "keep their powder dry to pay recourse lenders". In other words, their priority was to ensure that they had sufficient means to meet their recourse debt obligations.

Marketing Restructure:

"The key to survival in the real estate development business is marketing (leasing). The buildings need to be kept full, and that is why we have so many marketing and management people in Houston today." (Tom Simmons, Group Managing Partner, Trammell Crow Company)

One of the initial problems which occurred when the market started to decline was that developers started giving away free rent as a marketing technique.

"Free rent became a marketing tool at first and then became an alternative financing vehicle." (Steve Jaggard, President, The Horne Company)

In effect, developers were capitalizing the tenant by providing free rent, signing bonuses and moving allowances. The problem which many developers faced was that the tenant would move out when the free rent period expired.

Developers claimed that they could not afford not to renew an existing tenant (on a short term basis), since the additional costs associated with releasing and refitting the space would be very large. One of the first things Hines did when the market started to decline, was to renegotiate leases with all of their existing tenants whose leases were expiring within the following 12 to 24 month period. Hines wanted to lock tenants in at current market rates since they expected the rents to decline in the near future. Developers learned quickly that they were not willing to put in additional tenant improvements or give free rent unless they were sure that the tenant would pay after the free rent period expired.

"Times got so bad in Texas that developers were willing to lease space if the present value of the lease agreements were \$1 greater than if the space had remained empty. The impetus for developers to do these deals was to create leasing momentum and to re-sign the tenant after the initial lease expiration, hopefully under improved market conditions." (Louis Sklar, Gerald D. Hines Interests)

As a means of leasing in a down market, developers began to give up equity to major tenants in an attempt to entice them to lease space. Developers also provided above standard tenant improvements, moving allowances, up-front capital disbursements and rent "step ups" as ways to lure tenants to their buildings.

Ownership Restructuring:

In an effort to limit their exposure in certain projects, some developers brought in joint venture partners such as insurance companies and pension funds. Joint ventures were common before the decline, however, their frequency increased as the market deteriorated. When institutional partners were given an equity position in a development opportunity, the development partner usually had a non-recourse position or was liable for only a small percentage of the project cost. Louis Sklar indicated that Hines always would have a partner or permanent "takeout" before development would commence. Similarly the Paragon Group, from 1979 to 1983, as a way of mitigating risk, brought in joint venture partners for each of their new developments around the country. In fact, Paragon benefited from doing joint ventures while the market was

strong. Consequently, they were better able to withstand recent market pressures than some of their counterparts.

While many developers took on joint venture partners on a deal by deal basis, others sold an ownership interest in their entire real estate portfolio.

"In order to succeed developers must find financial partners who will provide them with working capital and the ability to wait out an over-development period." (Jack McJunkin, President, Centre Development)

Every company we interviewed, with the exception of one, had either restructured their financial obligations and/or brought in an equity partner. Many did so for defensive reasons. They were in a "cash crunch" and in order to remain liquid had to look to outside equity sources for assistance.

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CHAPTER 4: DIVERSIFICATION

A common practice among developers in Texas in the 1980s was to diversify either geographically, functionally, or by product type. Their objective for undertaking such an effort was two-fold: to enhance their revenues and to mitigate the risks involved in having all of their "eggs in one basket".

Geographic Diversification:

Developers were sharply divided. Some believed that geographic diversification was essential for long term success. Others felt that it was better for developers to only conduct business in the markets where they had an active presence. According to a 1987 Urban Land Institute study:

"The decision whether or not to expand geographically depends upon a number of factors: a firm's historical practices; the developer's assessment of the opportunities available in the home market; the perceived value of geographic expansion balanced against market risks and; a firm's organization, philosophy, and structure of authority".

In other words, prior to expanding geographically, a firm must analyze the market and determine whether or not they are capable of undertaking a project in that market.

Developers who diversified geographically typically did so by attempting to find an opportunity where they had a competitive advantage. In 1987 Property Company of America, fueled by their desire to find "in-fill" sites, expanded their operations to the East Coast, the Southeast and the West

Coast. PCA's strategy was to hire a local professional who was familiar with the market. They upgraded their product and amenities, and by utilizing the same floor plans from one market to another, had a better control over construction cost. Their objective was to construct a product that they knew was attractive in the eyes of institutional buyers.

Other developers such as Transwestern Property Company chose not to enter markets outside of Texas. Robert Duncan, who oversees Transwestern's operations, pointed out that it was too risky to develop in markets they knew nothing about. Duncan's opinion was that even though one could hire someone who was familiar with a different market, they were not willing to accept the risks associated with geographic diversification. Others indicated that hiring someone to head a regional office who was unfamiliar with their company was in itself a risky venture.

The experiences in Texas illustrate that developers should do what they know how to do best. Developers should not get involved in projects where they are unfamiliar with the market. Development is a very local business, and it takes time and experience to understand a marketplace.

*"Developers need to become more niche players...and find what they are good at. They don't need to go to new markets or diversify product type in a down market. When it is hard to make a buck, it is easier to lose it doing something that you don't know how to do or in a market you are unfamiliar with. It is far better to concentrate your resources on something you know how to do well."
(Richard Price, Managing Partner - Houston office, Kenneth Leventhal & Company)*

Experience indicates that developers should diversify for offensive reasons rather than defensive ones. For years, Gerald D. Hines Interests has stuck primarily to the same product type (major office buildings or multi-use developments), yet have expanded their geographic boundaries. They began their geographic expansion outside of Texas prior to the decline in the Texas market and have been successful. They are large enough so that when they enter a market, their presence is felt. In addition, they were not forced to rush into projects. They expanded during the good times and this gave them ample time to understand the intricacies of different markets.

In other cases, companies had dug larger holes for themselves because they were diversifying for defensive reasons. Forced to generate cash to meet existing debt obligations, these developers explored development opportunities beyond the State's boundaries in order to generate fee income. This might have been a successful strategy if the developers had the time to understand fully the various markets which they entered. However, the defensive nature of their expansion shortened their development time frame and caused them to force the development of projects that were not feasible. As a result, the companies escalated their existing problems and negatively affected their reputations with lenders.

Product Diversification:

The reason some Texas developers diversified by product type

was to broaden their base of opportunity. Many developers failed with their new products for two primary reasons: their timing was off; and they became involved in a product type where they had little or no prior experience. For instance, when the office and industrial markets in Texas started to have problems, some developers undertook retail and/or hotel projects. Unfortunately, the down market encompassed all facets of the business rather than one specific product type.

A lesson which these developers learned is that they misjudged the capabilities of their organization. Time after time, developers indicated that they should not have become involved in areas of real estate that they knew nothing about. If a development company is successful and oriented towards industrial projects, it is incorrect to assume that they will also be successful if they undertake retail development.

Functional Diversification:

Virtually every development company in Texas sought alternative means of generating revenue, other than through the development process. Indeed, most development companies abandoned speculative development altogether and many shifted their primary focus to one or more of the following services: merchant building; asset management; or financial services. Essentially, development companies in Texas have evolved into full service real estate companies.

Merchant Building:

Many real estate developers agree that they are becoming merchant builders. Merchant builders are developers that build and deliver a product to the market for a fair price. They are not long-term real estate investors. In the past, it was thought that all developers, by instinct, were investment builders who sought to build and maintain portfolios for long term growth in net worth.

"Before 1984, developers were vociferous as it relates to building...our concept was investment building and we identified with holding onto real estate for the long term." (Robert Duncan, Transwestern Property Company)

Hugh Caraway of Property Company of America said that in 1986, PCA and other developers changed their whole philosophy and became merchant builders. PCA's objective was to build and then sell to institutions in order to make short term money and retain the management of those properties. This change in strategy was prompted when many of the developers were forced to sell assets in order to raise the necessary money to keep paying their outstanding debt obligations.

"Before the Tax Act of 1986 we were all investment builders who were also in the syndication business". (Hugh Caraway, Property Company of America)

Asset Management:

When the Texas markets started experiencing a significant demand and supply imbalance in the mid-1980s, many developers focused their efforts on full service asset management on

behalf of third parties. Most of the third parties happened to be the banks, S&Ls, insurance companies and pension funds who owned the properties as a result of acquisition by foreclosure. The Duddlesten Companies, a Houston based development company which stopped building in 1982, was a pioneer in this area. In 1975, after a previous down market, Duddlesten Management was organized to specialize in asset management. Don Reed, President of Duddlesten Management, noted that by 1989, the firm employed approximately 2000 people across the country, a substantial increase from the 200 people which were employed in 1982.

The Trammell Crow Company and Transwestern Property Company have also been active in the area of third party asset management. They organized separate divisions to take advantage of new opportunities available in the marketplace. Robert Duncan of Transwestern said "our core business is now third party management". Both Transwestern and the Houston office of Trammell Crow are larger today as a result of asset management than they were in the early 1980s. Most developers who entered third party management succeeded in building their companies into larger, more diversified organizations.

Financial Services:

As a means of functional diversification, several of the larger development companies in Texas set up investment divisions for the purpose of attracting institutional money. Their objective was to acquire undervalued real estate assets

in the Southwest. A 1987 Urban Land Institute study suggests:

"Some firms were interested in expanding into other areas--financial services, investment banking, management of pension funds--as a way of diversifying to protect themselves during down periods of the business cycle".

Robert Dickson, Regional Partner in the Dallas office of Lincoln Property Company, said that Lincoln is representing institutional buyers of real estate. Lincoln acts as a consultant and asset manager and is active in the purchase of Texas apartment projects. They receive an acquisition fee, an asset management fee and based upon their performance, could receive incentive fees upon the sale of the asset. Paragon Group and Trammell Crow Company have organized investment groups to raise money from outside sources to purchase industrial properties in Texas. Through renovation, management and leasing, these companies seek to create value in properties.

Of the development companies we spoke with, all had diversified functionally. They did so to generate revenues in order to cover their overhead expenses and to keep their development teams together. Some companies diversified by product type or geographic location. The ones that were successful had generally diversified before the down market.

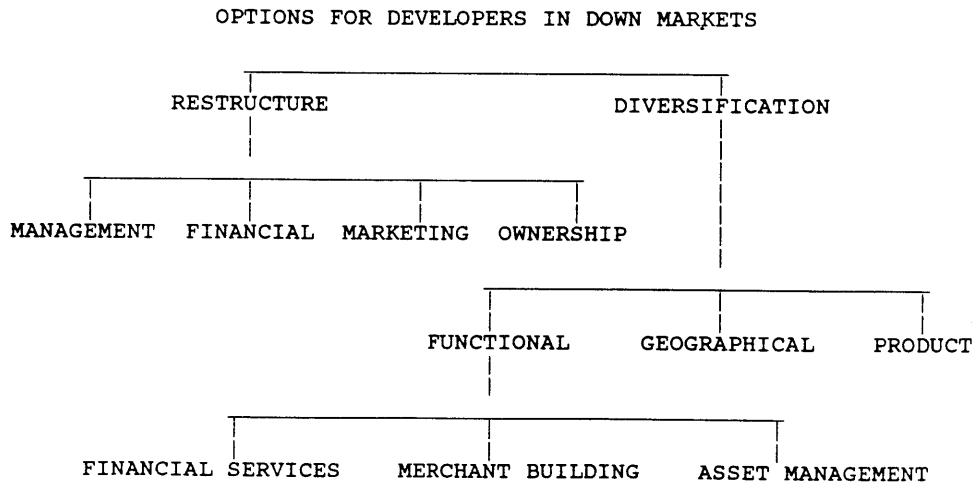
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CHAPTER 5: CONCLUSION

The decade of the 1980s has forced developers to change the way they conduct their business. Texas developers have evolved from speculative builders into full service real estate companies. The availability of capital and tax legislation led to the "boom". Ironically, these factors were also the impetus for the deterioration in market conditions. Developers in Texas forgot that tenant demand should be the driving force behind development. The down market has elicited changes within the industry.

Of the ten development companies we met with, all had either restructured or diversified. As the market deteriorated in the 1980s, development companies in Texas were forced to take a defensive posture. They became more attuned to the downside risks associated with development and in creating other sources of revenue. The following diagram summarizes the courses of action which development companies have taken.



In many cases, companies approached their problems from two or more angles. For instance, Transwestern Property Company restructured their debt obligations and diversified functionally by placing a strong emphasis on asset management for third parties.

Whether development companies restructured or diversified, they all seemed to have had the same objective: to survive the recession and to preserve their financial condition to the best of their ability. We found that those companies who were decisive and responded early to their problems fared better than those who did not react quickly.

The successful companies were the ones that were creative and trusted their own instincts. Those companies who were motivated by the "herd instinct" were the ones who suffered the most. For instance, one company mentioned that they went to Nashville because that "was where the action was". They followed others and built during the upswing. However, when their project had finally come on line the market had soured due to an over-supply of product.

Companies such as Paragon, who proceeded cautiously during the "boom" period, fared better in the "bust". While they may not have made as much money during the up cycle, Paragon did not lose as much during the down cycle. Money alone does not motivate successful organizations.

"A great company does not have a single vision, it has multiple visions...it's not just making money, it's creating jobs and people helping people." (Don Williams, Trammell Crow Company)

History has taught us that development in Texas is a cyclical business. In all probability, the business will continue to be susceptible to economic cycles for two reasons: development projects tend to be large in scope, and the time lag between when an opportunity is perceived and when it is acted upon can be several years. Even the large development companies may only have five or six projects in the pipeline at one time. If one of these projects fails, the financial effect on the company/partnership can be acute.

We predict that in the next fifteen years the real estate cycles in Texas will not be as dramatic as they have been over the last fifteen years. The main factor behind our prediction is that the nature of the business is changing. More equity and pre-leasing will be required in the future. Developers are switching from speculative building to fee driven development. Out of necessity, developers have turned their attention to creating a service rather than a product. As the business becomes more service oriented, developers will have less capital at risk.

"The future is bright for Texas" (H. Ross Perot, Jr., The Perot Group)

We are optimistic about the opportunities for developers in the State of Texas. However, our optimism is qualified. The experience of the past decade has illustrated a number of

important lessons:

- * Identification of the risks inherent in a deal should be a top priority.
- * Developers should pay attention to warning signals.
- * Change creates opportunity. However, developers will only be able to garner the benefits of change if they are positioned to take advantage of the change.
- * If there are a lack of barriers to entry within a given marketplace, companies must distinguish their product from that of their competition, either through a superior design, price, management or location.
- * If developers sign personally on a loan, they should be prepared to pay the consequences.
- * The stimulus behind deals should be tenant demand and not an artificial influence. Our tax laws have been changed repeatedly over the last fifteen years and if history is a good prediction of the future, we can expect changes in the tax laws over the next decade.

The development business has evolved into a complex industry.

Those that succeed will recognize change and react.

"You have to present Americans with products and services they see as familiar, yet as new and wonderful. Know what the market will take, will pay for, will accept. Then study the situation and provide what is required. It is as simple and as complex as that". (Trammell Crow, Trammell Crow Company)

In the latter part of the 1980s, the Texas real estate markets were at a low tide. However, by 1989 there were signs which suggested that a turnaround was imminent. Companies such as the J.C. Penney Company and American Airlines undertook major moves to the Dallas-Fort Worth area. Economists were observing that the Houston economy was diversifying. The 1990s is the dawn of a new era in Texas real estate. Those who survived the 1980s should be in a strong position to take advantage of new opportunities.

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APPENDIX A: COMPANIES INTERVIEWED

Trammell Crow Company: The firm consists of three real estate development companies with offices nationwide: Trammell Crow Company-Residential; Trammell Crow Company-Commercial; Trammell Crow Interests. The Dallas-based firm is privately owned, has regional offices throughout the country, and is the country's largest development company. The company was founded in the late 1940s by Trammell Crow and is currently involved in office, retail, industrial, multifamily, single-family and hotel development.

Lincoln Property Company: The firm is the country's second largest privately owned development company. Based in Dallas, the firm has regional offices throughout the country. The company was founded by Mack Pogue, who was formerly associated with the Trammell Crow Company, in the mid-1960s. The firm is involved in office, industrial, retail and multifamily development.

Gerald D. Hines Interests: The firm is one of the country's "Top 15" development companies by 1988 volume of production. The privately owned company is based in Houston and was founded by Gerald Hines in the late 1950s. The firm, which was at one time the country's largest development company, is primarily involved in the development of office space. Hines has regional offices across the country.

Paragon Group: The firm is one of the country's "Top 30" development companies as measured by 1988 production activity. The privately owned company was founded by Bill Cooper in the late 1970s, and is based in Dallas. Paragon has regional offices in several cities across the country. The firm, whose principals were formerly associated with Lincoln Property Company, is involved in office, industrial, multifamily and retail development.

Property Company of America: The firm is one of the country's "Top 30" development companies by 1988 production activity. The privately owned company is based in Tulsa, Oklahoma and was founded by Paul Hinch in the early 1980s. The firm, whose principals were formerly associated with Lincoln Property Company, has regional offices in several cities across the country. PCA is involved in the development of office, multifamily and industrial space.

Prentiss Properties Limited: Formerly Cadillac Fairview, the firm is currently listed as one of the country's "Top 100" development companies as ranked by 1988 production activity. The company was purchased in the late 1980s by Michael Prentiss and Copley Realty Advisors. Prentiss Properties has regional offices in several cities across the country and is involved in the development of office, industrial, hotel and retail development.

Centre Development Company: Founded by Jack McJunkin in the late 1970s, the Dallas-based company is currently active in

the development of office, industrial and retail space. The firm was one of the country's "Top 100" developers in 1988 and has a regional office in Austin, Texas.

Transwestern Property Company: The firm is a Houston-based development company that was founded in the late 1970s by Robert Duncan. The privately owned company has been active in the development of office, industrial and retail space. The firm is currently more active in real estate asset management than in development. Duncan at one time was affiliated with the Trammell Crow Company.

Duddlesten Management Company: The firm is a Houston-based management company which was formed in the mid-1970s. The company is national in scope and is headed by Don Reed. The Duddlesten Companies, the parent to the management operation, was primarily active in the development of office and industrial properties during the 1970s and early 1980s. The Duddlesten Companies stopped developing in 1982.

The Perot Group: The firm is a Dallas-based real estate company which specializes in land development and property acquisition. The firm was founded in the 1980s by H. Ross Perot, and is currently headed by H. Ross Perot Jr. The company is the largest land owner in the Dallas/Fort Worth area.

Kenneth Leventhal & Company: Founded by Kenneth Leventhal in the late 1940s, the firm is currently one of the country's

fifteen largest CPA accounting firms. The firm, which is based in Los Angeles, has regional offices located throughout the country. The company specializes in debt restructuring and consulting for real estate development companies.

L.J. Melody and Company: The firm is a national real estate investment banking firm which was founded in the late 1970s by Larry Melody. The company provides financial services related to commercial property and serves an advisory role to pension funds and life insurance companies. The firm is headquartered in Houston and has offices in Dallas, Austin, Los Angeles, Irvine, San Diego and Denver.

The Horne Company: Headquartered in Houston, the real estate brokerage firm offers services in the areas of office and industrial leasing, brokerage, and asset and property management. The company was founded in the 1920s, and is currently headed by Steve Jaggard.

Texas Commerce Bank: The Houston-based company is one of the largest commercial banks in Texas. The firm merged with Chemical Bank Corporation in the late 1980s. The real estate department is headed by Steve Field.

The Travelers: The firm is one of the country's largest life insurance companies. Headquartered in Hartford, Connecticut, the company was an active participant in Texas real estate in the 1970s and 1980s.

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