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Verde Realty

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Abstract
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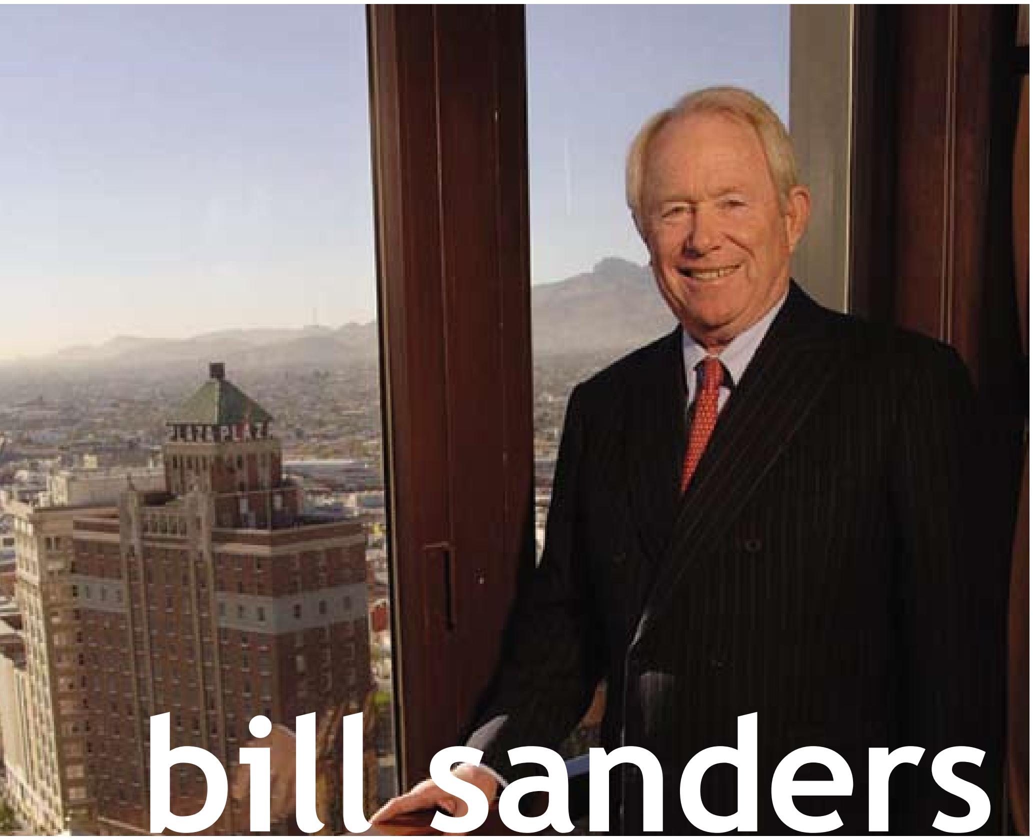
executive profile



bill sanders

William "Bill" Sanders is renowned as one of the greatest innovators in the world of real estate finance. Over the last 40 years, Mr. Sanders has been instrumental in the creation and operation of some of the largest and most successful real estate ventures ever undertaken. He has been described as the 'Warren Buffett of real estate' and is considered to be one of the most influential real estate strategists in the country. Mr. Sanders is both a member of the Cornell University Board of Trustees and the Cornell Real Estate Advisory Board.

Mr. Sanders grew up in El Paso before attending Cornell University. After graduating from the College of Agriculture and Life Sciences in 1964, he worked in Honduras as part of a Peace-Corps type program.

Upon his return to El Paso, Mr. Sanders founded International Development Corp. Two years later, in 1968, he relocated the company to Chicago and christened it LaSalle Partners—later to become Jones Lang LaSalle, one of the largest real estate services companies in the world. LaSalle Partners started to pursue what was at the time a niche market, real estate services, and proceeded to establish itself as the second-largest property manager in the United States. In 1989, Mr. Sanders withdrew a portion of his financial interest in LaSalle Partners and, late in 1989, retired as the CEO.

In 1991, having returned to El Paso, Mr. Sanders founded Security Capital Group in nearby Santa Fe. Security Capital grew from humble beginnings to become what many have described as one of the most influential real estate companies ever created. Along the way, some of the United States' leading REITs were built, including ProLogis, Archstone Smith, Regency Centers, Storage USA and CarrAmerica Realty Corporation. Mr. Sanders, known for his ability to form and develop highly effective teams, was responsible for inspiring today's leading real estate executives, many of them having come up through Security Capital's ranks. In 1997, Security Capital became a public company with controlling interests in leading real estate companies both listed and unlisted. By 2000, it was the largest real estate investment and management company in the world with over $26 billion in assets across 18 operating companies.

Ultimately, as a publicly-listed entity, Security Capital's structure became overly complicated for Wall Street analysts and the decision was made to simplify the operations to better realize the underlying real estate value. In 2002, the company was sold to General Electric for $5.4 billion, one of the largest real estate related transactions of that time.

It came as no surprise to his peers when in 2003 Mr. Sanders embarked on yet another ambitious real estate venture. Along with Ron Blankenship, former Vice Chairman and COO of Security Capital, Mr. Sanders founded Verde Realty, a real estate development, operating and investment company focused on both sides of the U.S.-Mexico Border. Verde Realty's strategy set out to capitalize on the substantial real estate opportunity created by dynamic economic and population growth in the region. The company currently operates through four highly focused business platforms in the industrial, multi-family, retail, and master planned community property sectors. After just three years of operation, Verde Realty appears to be well on its way towards establishing itself as the region's leading real estate enterprise

William Sanders is known as a visionary in the real estate industry. In 1999, Cornell University honored him as the Cornell Entrepreneur of the Year and in 2003 NAREIT presented him with the Industry Leadership Award.

Recently, Bill spoke to the *Cornell Real Estate Review* editorial board. On the following pages are excerpts from our conversation.

Do you consider leadership a natural ability or an acquired skill? What advice can you give to young professionals hoping to improve their leadership skills?

I believe that the best experience that you can have in terms of leadership is to either work for a great leader or a terrible one. Either way, you learn different ways of looking at a situation and assessing it. I would encourage young professionals to read about the greatest leaders in business and emulate those things which they did well. No leader is good at everything, but emulating positive traits can enhance your leadership skills.

You've been noted for your ability to build a successful team. What qualities do you consider key indicators of success in a potential employee?

First of all, I don't look at resumes because I don't want to judge a candidate based on what his or her resume says. I want to judge a candidate based on how we interact in an interview. I have always had an extensive interview process. We intentionally make interviewing a very difficult process for candidates in any of the companies that I've been involved with; we essentially put them through basic training during the interview process.

But basically, I look for people whom I like, whom I feel good about and feel comfortable with. We also never engage in compensation bidding wars—we want people who want to come to work for what we're doing, not because we're offering the most money.

How would you recommend others get a start in real estate?

Basically real estate, like business, requires you to focus on key niche markets. First and foremost, it is about identifying strategic opportunities and then putting a team together to execute the strategy. The most important thing you can do is pick the niche you want to be in, and then pick two other things: a really good company, and within that company, the individual you want to work for. It's as simple as that. And luck—luck does the rest.

What has been your greatest challenge in business?

Probably the greatest challenge that I've had—and as I look back I could write a book on challenges—is that I have picked three vastly different niche markets.

When we established LaSalle Partners in the early 1970s with the strategy of providing corporate real estate services, no one knew what corporate real estate services were! We were speaking one language, and the rest of the industry was speaking a totally different language. The lesson is that you really shouldn't care about what the industry is doing. What you really want is to create your own industry within the industry.

When I started Security Capital Group in 1991, I said, "The industry has to become securitized because the appraisal system is an inefficient system and (real estate) funds really aren't measuring the value of their capital effectively; the industry should focus on becoming publicly listed. We spoke with over a dozen institutions and only one of them agreed with our strategy, but of course, it was the right move to make.

It's really no different than what Verde Realty is doing right now. We have felt for four or five years now that whether the country likes it or not, the manufacturing platform in the U.S. is going to be on the Mexican border, and that's where the growth is going to take place. So, just trying to prove out a theory has always been an interesting and enjoyable challenge, but you spend the first couple of years trying to communicate that theory to others.

Do you have a recipe for success?

In my view, the key ingredient to exceeding the performance of your peers is, first, to read continuously—and not just about real estate. Read about everything, from business to politics; it will enrich you professionally.

Strategy—and luck—are keys to succeeding in the real estate industry. "When I started LaSalle partners I was worth either plus or minus $5,000, I'm not sure which."

Second, don't run around with people in your industry! Run around with people that will bring renewed vigor to your process. And third, if you start a company, get the strongest directors in the world: people who will tell you that you're full of baloney; who will tell you that you're too demanding; people who are compassionate, when you get down to it. Don't surround yourself with sycophants—surround yourself with people who will be provocative.

There are some fabulous examples of incompetent boards which have dissipated some of the greatest brands in the entire world just because they picked a CEO who they enjoyed playing golf with as opposed to one who could drive the company and the strategy forward.

Wall Street analysts tend to focus on quarterly earnings whereas REITs and real estate investments in general are engaged in a longer time-horizon. Do you consider the public market to be adequately sophisticated to evaluate and value the long-term strategies that exist in real estate?

I would say that the way the public real estate industry is viewed and the way the S&P is viewed are essentially identical; that is, the system in my view is very flawed. It puts a focus on quarterly performance that is absolutely absurd. Of course, you have to have that dimension as part of your economic strategy because at some point you've got to begin to create cash flow. But I think it is irrelevant what the real estate industry thinks about how it should be valued. That isn't going to change until the industry as a whole changes and hopefully people like Warren Buffett will begin to have influence on how the industry should be valued. It is likely that over the next 25 years, investments valued on a quarterly basis will become less competitive among astute investors.

"I'm a bad golfer. Building businesses is my sport."

What sort of conditions would have to exist in the market to catalyze that type of change?

The most important catalyst in the world for change is failure. I think it's critically important that, over the next 25 years, the market starts to look at companies that care about the next 10 years' performance, rather than the next quarter's performance.

I think what you're alluding to is a series of public offerings recently where companies don't have the greatest long-term potential but people buy shares anyway hoping for short-term gain.

That's a byproduct of the analysts' mindset. The real estate analyst plugs into the senior analyst who is a Fortune 500 person, and so on. Until the corporate ladder changes, real estate isn't going to change. The problem is that there are legions of money managers who are measured every quarter or even every day, so they make short-term decisions to make their performance look good so that they attract more capital.

There are frankly only a handful of companies that are hitting their numbers quarterly that also have a fabulous strategy. They've been able to meld the two, and that's where the really smart investors are going to deploy capital.

In the case of Verde Realty and the Santa Teresa project, you've said that you're in it for the long haul. Do you foresee or have you historically had challenges getting investors to see your long-term strategy?

Basically, anytime you have more than one investor, you're going to have conflicts because today they may wish to do one thing, and tomorrow they may wish to do another. That's one reason, ultimately, to have a public company. If people like your strategy, they remain owners, and if they don't like your strategy they decide to deploy their capital elsewhere.

The bottom-line strategy at Santa Teresa—which is just one of our projects—is to create a thoughtfully planned living and working environment for employers, workers and their families who will need to effectively compete in global markets. Verde is the master developer of the entire project; we will develop, and own long-term, all industrial, multi-family and retail assets. We will then sell fully-developed single family lots to homebuilders with strict covenants to ensure that we create a true sense-of-place that builds substantial long-term value.

You have witnessed shifts between taking companies public and then private, do you foresee any concerns for the industry in light of the disclosure of public information?

The best thing that has happened to real estate in my career has been the move from a private-dominated industry to a public-dominated one. It is a much better industry today, post-securitization, because of the quality of the management teams, the quality of the information, and the evolving oversight by the analysts. In the old days, the banks—both commercial banks as well as the Fed—would call you to get information about supply and demand, and the information you gave them would already be three years old. Today, it's 30 days old. So it's a much healthier environment.

Do you perceive liquidity as an engine for creating new things or do you think that increased competition for capital stifles creation and innovation?

In my view, the excess capital in the market today is stimulating financial engineering, not creativity. And there isn't too much liquidity in real estate alone—there's too much liquidity in every sector of investing! There's too much capital. I think creativity is driven by a number of different forces, but especially by research and by competition. You look around for opportunities that other people are not pursuing. It's real simple, actually: you want as little competition as possible, and as much growth as you can achieve. It doesn't take a genius to buy a 4% return. I'd be embarrassed to buy a 4% return, even if you can make the numbers look right. Healthy returns drive the need to be creative and different.

Run for the Border

Bill Sanders' new venture embraces the principles of cultural and commercial free trade

Verde Realty was founded in 2003 by William "Bill" Sanders, to focus on dynamic growth along the U.S.-Mexico border. Mr. Sanders recognized two key trends early on that would drive growth in this region: 1) the U.S.-Mexico border was positioned to become North America's globally competitive production platform, and 2) population growth on both sides of the border was growing significantly faster than the population growth rates of each respective country. Over the past 20 years, the 6 northern border states of Mexico have gained meaningful importance in a country that has historically revolved around Mexico City. Major cities in the northern border states are currently growing 2-3 times faster than the rest of Mexico. Three of Mexico's 6 largest cities, Monterrey, Juarez and Tijuana, are now located in border states. On the U.S. side, nearly half of the entire U.S. population growth over the next twenty years is projected to occur in the 4 border states of California, Arizona, New Mexico and Texas. Mexico is poised to be one of the world's top growth stories. It is projected to become the world's 6th largest economy by 2050, after China, the U.S. and India, just behind Japan and Brazil, and significantly ahead of Germany, UK, France, Italy and Canada.

The venture embodies the long-held strategy of Mr. Sanders: "I wanted to be in an area without a lot of competition, and with a lot of growth, and, at this stage of my life, I didn't want to live on an airplane traveling to China or India."

Verde Realty marks a return to Sanders's roots in Texas, just in time to capitalize on the burgeoning manufacturing industry south of the border. The U.S.-Mexico border region has seen significant growth in recent years and will continue to expand as more U.S. companies relocate operations to reduce costs to remain globally competitive, and as Asian and European companies establish operations to cost-effectively access the North American market. In the last three years, Electrolux, Foxconn, Lexmark, GE Healthcare and Johnson & Johnson have all opened major operations in Ciudad Juarez, just across the border from El Paso, Texas. These two cities have a combined population of close to 3 million people, making it the largest cross-border city in the world. Juarez is the largest production-sharing center in Mexico with nearly 300 companies employing over 240,000 workers in increasingly sophisticated manufacturing operations

The U.S.-Mexico Border is North America's most globally competitive manufacturing platform. El Paso-Juarez has established itself as the epicenter of this rapidly growing region.

Verde Realty intends to be a major player in the U.S.-Mexico Border region and Mr. Sanders, along with his Co-Chairman and longtime business associate, Ron Blankenship, have quickly established a leading presence there. After just 36 months, Verde Realty has operations in 14 key target market cities on both sides of the border and has developed or acquired substantial real estate positions in four highly-focused business platforms:

Verde Corporate Realty Services, is now a leading developer/owner/operator of industrial facilities on both sides of the U.S.-Mexico border. Verde Apartment Communities is a leading developer/owner/operator of multifamily properties on the U.S side of the border. Verde Retail is in the early stages of becoming a leading owner/operator of retail facilities on both sides of the border focused on the underserved Hispanic market. Hispanic consumers tend to spend more per week on groceries than a typical American family and the Hispanic teenage population is one of the largest and fastest growing consumer demographic groups in the U.S.

In Verde Master Planned Communities, the company's first project is a 21,000-acre new town just west of El Paso Texas called Santa Teresa. Verde Realty is the master developer for the entire site, which will ensure the integrity of the overall master plan. The company will build all industrial, multifamily and retail properties within the project and sell fully-developed single family lots to homebuilders with strict architectural guidelines. The project is conceived as a "tight-knit community with shared priorities" and is being marketed as a strategic operating platform for Global 2000 companies and their employees to effectively compete in world markets. According to Sanders, "(Verde Realty's) strategy is to offer workforce housing that is part of a thoughtful, master-planned community, one that employs sustainable practices by virtue of the planning process. The location of homes within close proximity to work will necessitate fewer trips by car and reduced transit time. This is seen as both an economic feature as well as a sustainable effort."