

**Birtcher Development & Investments
Legacy of Leadership, a video series**

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Turnaround Indicators

Spending most of my working day looking at REITs, there is really no better indicator of where real estate is headed than to look at REIT prices. REITs tend to be a leading indicator, since they are publicly traded, and investors are deciding everyday what real estate is worth in the public market. They are discounting a lot of this bad news – they know that the consumer is going to be weak and they know that development doesn't make sense. They know that industrial is going to be weak because the consumer is weak. They know retail is going to be weak, they know that the office market is going to be weak because we're going to lose six or seven thousand jobs this time around. All of those things, presumably, are baked into the pricing of real estate in a public market. I think oftentimes, private market real estate players don't avail themselves of that strong signal.

Motivating the Next Generation

We run a people business and our key assets walk out the door every night. It would have been very easy for us to keep it a two-man show and have a bunch of hired hands working for us. But we very quickly realized that we would all be better off if we found a way to get stock in the hands of the younger generation. Now that generation is extremely motivated, they view it as their own company, and when you own a piece of the company, you act very differently. So if you want to boost morale, I know of no better way to empower somebody than by allowing them to own a piece of the action.

Future of REITs

Going forward, in regards to financing REITs, they are going to have to use a lot less leverage. What we saw after the last real estate credit crunch, which was in the early 1990's, REITs came out of the ashes basically as the only player with equity. The market mandated, basically, that REITs would have to keep its leverage ratio down to 35 to 40 percent. When REITs got higher than that, they got spanked around by their shareholders. We lost that discipline and that's part of why we are in the problem that we're in today. I do believe that discipline will come back. We won't really have a healthy, viable REIT industry until that takes place, and to get from point A to point B, we need to raise a massive amount of equity.

The "Have's" and the "Have Not's"

There are really two camps within the existing REITs – there are the "have's" and the "have not's." The "have-not's" are like a lot of private real estate companies, they're in very precarious straights. They went into this with leverage ratios that didn't seem too bad, maybe 50, 55 or 60 percent. But when you have asset values decline 30 or 40 percent, which is what we expect to have happen by the time the dust settles, that basically wipes out your equity. So we are going to see a lot of distress in the bottom rungs of the publicly traded REIT sector.

The “Have’s” and the “Have Not’s” (cont.)

On the flip side, and all REIT prices have been hit hard, there is a group that I would label as the “have’s,” which include some of the biggest real estate companies in the country. They ran their balance sheets better, and because they ran their balance sheets better they're going to survive. Not only are they going to be able to survive, but they're going to have a world of opportunities open to them. There will be distress and there will be fire sales and somebody needs to buy that property. These guys are going to be able to take advantage of some of the best opportunities in my lifetime.

Advice to New Grads

My biggest advice is, do not be afraid to be entrepreneurial. Especially when you're young you can fail a time or two. You can always go get hired by somebody but there's nothing like running your own company.

I took a very unusual route coming straight out of business school, University of Chicago with a MBA. All of my classmates were going off to careers on Wall Street. This was a wild hare to come out here and move to California to do a start-up venture, that for all we knew was destined to fail, and probably should have. For a young person, it's probably a pretty discouraging time to be considering your career in real estate. I will say that sometimes hopping in at the bottom can be the best time to get into an industry though.

Throughout 2009, Birtcher will post new videos to its website, www.birtcherdevelopment.com.

Video produced by [Birtcher Development and Investments](#) and [Idea Hall](#).

Mike Kirby Biography

Mike Kirby
Chairman and Director of Research
Green Street Advisors

Mike Kirby co-founded Green Street in 1985 and has headed up the firm's research efforts ever since. Research accomplishments include the design of Green Street's valuation models as well as thought-leading work on capital-expenditure requirements and performance measurement for real estate companies.

Kirby has authored company-specific reports on dozens of REITs throughout virtually every property sector. He currently is a member of the National Association of Real Estate Investment Trusts' (NAREIT) Institutional Advisory Panel to the Board of Governors, and, in recognition of contributions made to the REIT industry over his career, is a past recipient of NAREIT's Industry Achievement Award. He is often quoted and interviewed in the financial press and is also a frequent speaker at REIT and real estate industry conferences (e.g. NAREIT, PREA, ICSC, etc).

Kirby earned his MBA in finance from the University of Chicago and his BS in Finance from Arizona State University.

For more information, visit www.greenstreetadvisors.com