



RCLCO STRATEGY PLANNING PROCESS FOR REAL ESTATE COMPANIES

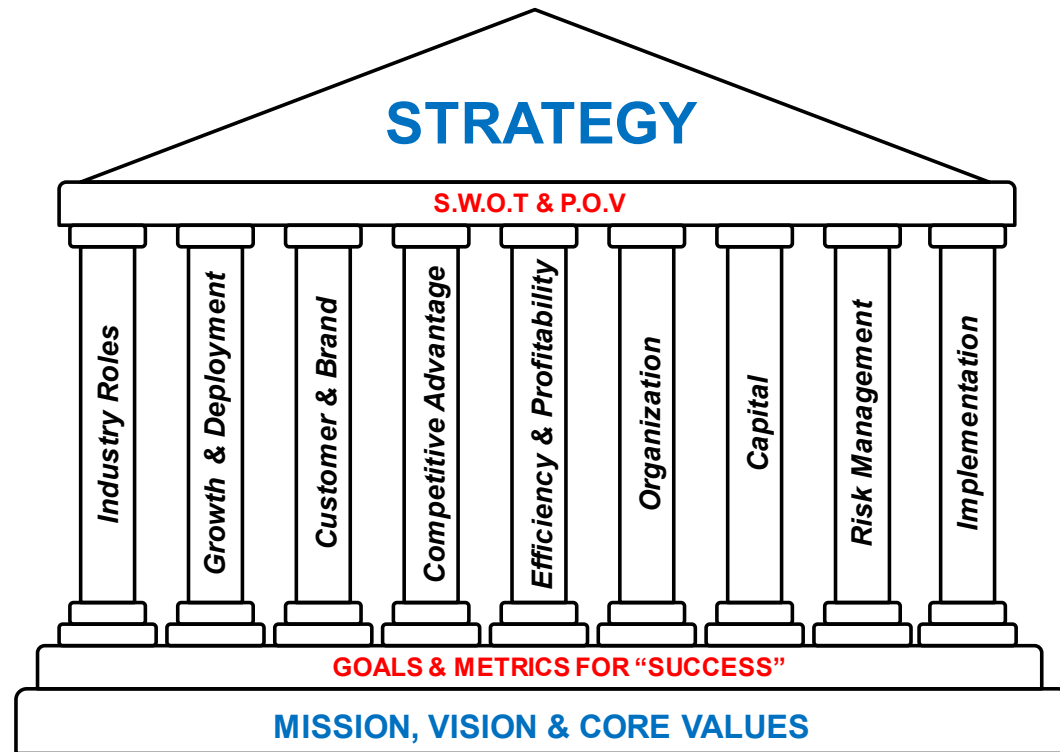
***RCLCO Strategy Planning Process Summary
Q4 2023***

RCLCO
REAL ESTATE CONSULTING

RCLCO Strategy Pillars

RCLCO has developed, and continues to perfect, a strategic planning process specifically for real estate companies. Using the RCLCO Parthenon meme as an organizing principle, we know that a well-rounded and robust strategy is:

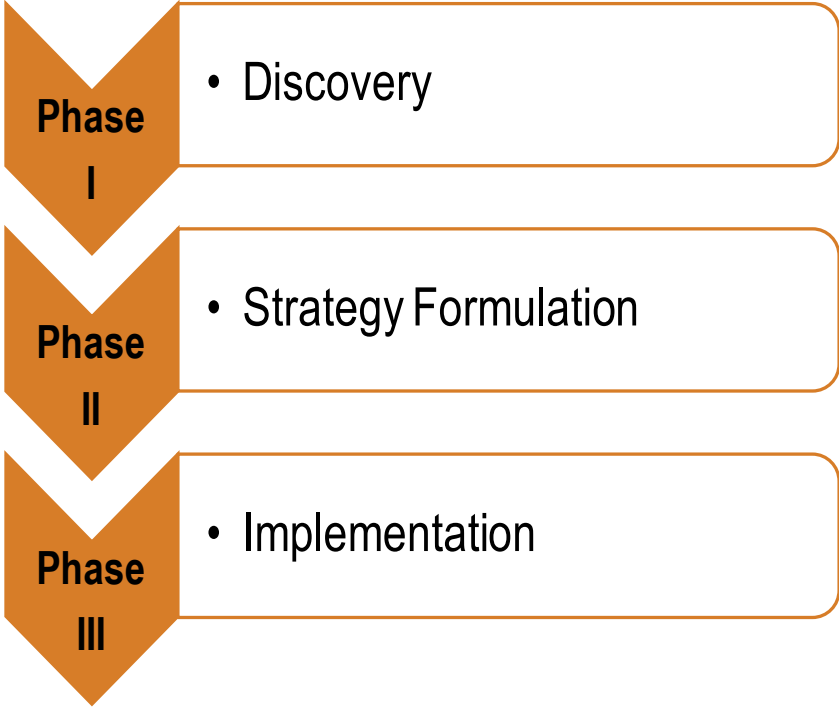
built upon a foundation of mission, vision, values and goals; informed by an objective assessment of the internal company and external market environments; and is designed with each of the “pillars” outlined below.



RCLCO PARTHENON	DESCRIPTION
S.W.O.T. & POV	Strengths, weaknesses, opportunities, and threats facing the company, and its point of view regarding key externalities
Mission, Vision & Values	What the company stands for and what it values
Goals & Objectives	What defines “success” and how to monitor progress/achievement
Industry Role Strategy	What the company does in the real estate industry
Customer & Brand Strategy	Delivering value to internal and external customers
Competitive Advantage Strategy	Skills and capabilities that enable the company to win the game
Growth & Geographic Deployment Strategy	Where the company does it and how it grows
Efficiency & Profitability Strategy	Optimizing the bottom line/economic performance
Organizational Strategy	Maximizing the effectiveness of the company, and developing a high performing team
Capital Strategy	Funding the strategy
Risk Mitigation Strategy	Optimizing access to and cost of capital
Implementation Strategy	Monitoring, acting, and prospering during all phases of the economic and real estate cycles and creating resiliency

RCLCO Strategy Planning Process & Timeline

The typical duration of a strategy planning process depends greatly on the complexity of the organization, the key issues with which the Strategy Team must contend, and the extent to which there is a need/desire to engage internal and/or external constituencies. However, based on our experience, the typical timeframe for most strategy engagements is four to six months, with period of higher a lower activity.



STRATEGY TIMELINE

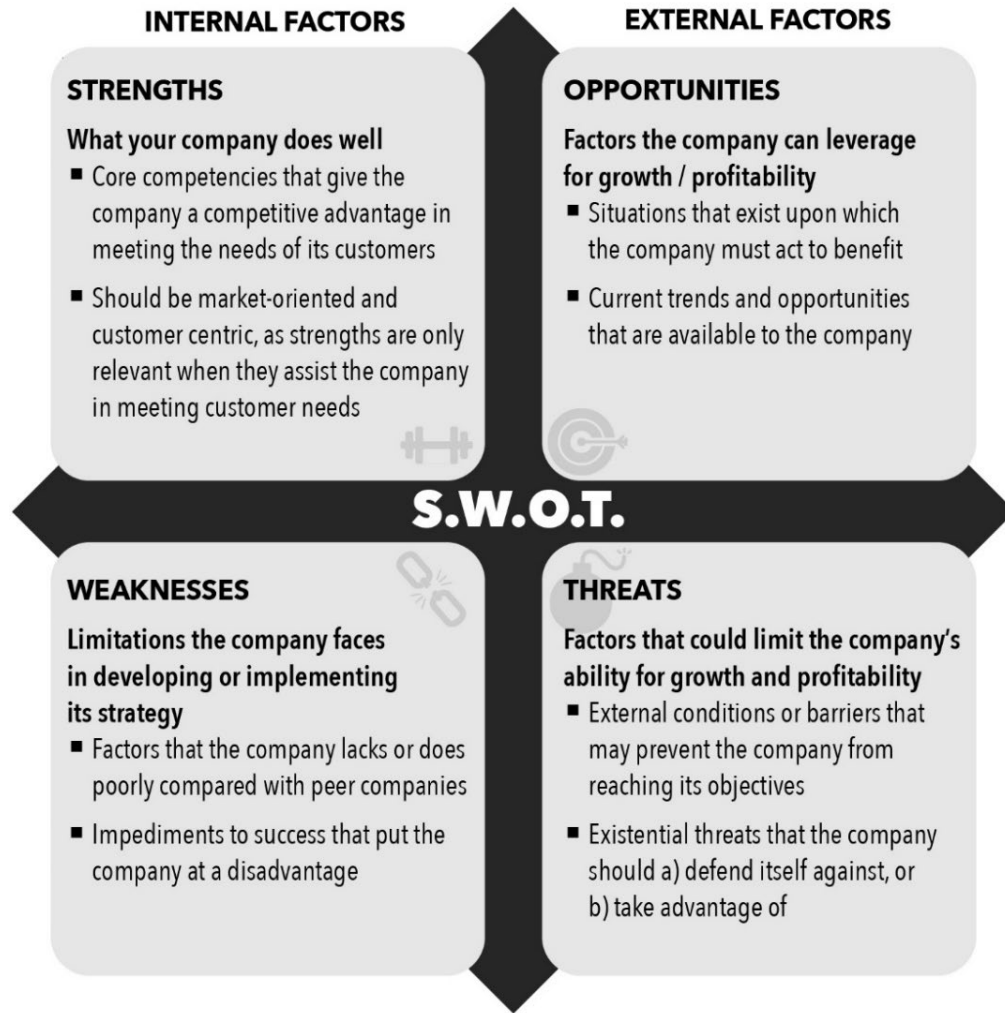
TASK	JULY				AUGUST				SEPTEMBER				OCTOBER				NOVEMBER				DECEMBER							
	7/3/23	7/10/23	7/17/23	7/24/23	7/31/23	8/7/23	8/14/23	8/21/23	8/28/23	9/4/23	9/11/23	9/18/23	9/25/23	10/2/23	10/9/23	10/16/23	10/23/23	10/30/23	11/6/23	11/13/23	11/20/23	11/27/23	12/4/23	12/11/23	12/18/23	12/25/23		
PHASE I: DISCOVERY																												
ONE	1.1 Ownership Goal Session (2-3 hours)																											
	1.1 Document Review & Planning																											
	1.2 Initial Kick-Off Meeting (2-3 hours)																											
	1.3 Discovery Interviews																											
	1.4 SWOT Analysis																											
	1.5 Situation Analysis																											
	1.6 Briefing Book																											
PHASE II: STRATEGY FORMULATION																												
TWO	2.1 Initial Strategy Session I (1.5-Day)																											
	2.2 Strategy Formulation																											
	2.3 Follow-up Strategy Planning Session II (1.5-Day)																											
	2.4 Strategy Hypothesis & Enterprise Pro Forma																											
	2.5 Final Strategy Planning Session III (1-Day, if necessary)																											
PHASE III: IMPLEMENTATION PLAN																												
THREE	3.1 Implementation Formation																											
	3.2 Final Strategy Plan Documentation																											

Project Milestones

- ★ Deliverable
- Meeting

Strengths, Weaknesses, Opportunities & Threats (SWOT)

Conducting a strengths, weaknesses, opportunities, and threats (SWOT) analysis is an effective way of assessing your company's strategic positioning by looking at internal company factors (i.e., strengths and weaknesses) within the context of the external market environment (i.e., opportunities and threats).



Company Point of View (POV)

Through the SWOT analysis, the strategy team will begin a process to identify and formulate a point of view (POV) about important factors that will influence the marketplace, the competitive environment, and the company's position within both.

MEGATRENDS

- Autonomous vehicles - how will this inform what we invest in and when?
- Post-COVID "new normal" in the workplace, retail, etc. - what trends are likely to be durable and which ones will fade along with the memory of the pandemic?
- Technology and innovation - what are possible disruptors?
- Climate change - should this inform where we invest and how we protect "our assets from the negative impacts of a more volatile planet?
- Housing affordability (or lack thereof) - is the depth of market for our products and services under threat, and how can we change our business model/ product/service to tap and underserved market?
 - Social/economic equity - what can/should the company be doing to ensure that its values and actions are aligned with changing attitudes about inclusivity, equal opportunity, etc.?

ECONOMIC AND REAL ESTATE MARKET INDICATORS

- GDP and job growth
- Interest rates
- Cap rates
- Availability and cost of capital (both debt and equity)
- Demographic and socioeconomic changes, such as:
 - Household formation
 - Migration patterns
 - Immigration
 - Labor force availability and cost
 - Homeownership rates (and the inverse, renter propensity)
 - Commercial space utilization rates
 - On-line retail penetration
- Construction cost and material prices
- Rental rate/home price escalations
- Tax policy changes
- Competitor wherewithal
- Land/asset availability

Goals & Objectives

WHAT DOES “SUCCESS” LOOK LIKE:

Goals and objectives are key foundational elements of the company’s strategy that define what it is trying to achieve (its goals), what will constitute “success” (objectives) in reaching these goals, and a time frame as a means of knowing when such goals and objectives are targeted to be met. The Strategy Team has set goals and objectives over the next 10 years (or 2033) as the strategy plan horizon. With this strategy plan horizon in mind, what are the concepts and metrics that will define “success?”

KEY CONCEPTS:

- ▶ Qualitative Goals
- ▶ Company’s “North Star”
- ▶ Long-Term (10+ Years) Goal = “Landing Zone”
- ▶ Near-Term (1-3 Years) Objectives on Path to North Star

METRICS:

- ▶ Quantifiable Goals
- ▶ Absolute Target(s)
 - » e.g., double NAV by date certain
- ▶ Relative Target(s)
 - » e.g., achieve top 5 performance among peer group

Mission, Vision, Values & ESG

These are the elements that define why the company exists, what its purpose is, and what the guiding principles and values of the organization are that define it today and will continue to guide it in the future.

MISSION STATEMENT

- ▶ Primary statement
- ▶ North Star = ideal future

VISION STATEMENT

- ▶ Secondary statement
- ▶ What the company will do to achieve its mission over the strategy plan horizon

CORE VALUES

- ▶ Core tenets
- ▶ How we carry out our mission

ESG POLICY

- ▶ Commitments to make the world, our communities, and our company a better place
- ▶ Increasingly important to investors and employees have stated policies, targets and progress reports

Industry Role Strategy

The company's industry role strategy defines what the company will do, and what it will choose not to do, to achieve its goals and objectives over the strategy plan horizon. These strategies are focused on the following dimensions:

INDUSTRY ROLES – UNIVERSE OF OPTIONS:

- ▶ Products/Customer Segments
- ▶ Investment Strategies
- ▶ Business Lines & Activities

INDUSTRY ROLES

OPERATING RISK ROLES

Property Management

Asset Management

Portfolio Management

Brokerage, Leasing & Sales

Fee Development

Construction Management

Investment Advisor/
Consultant

Maintenance Services

Technical Professionals/
Consultants

CAPITAL RISK ROLES

Land Speculation

Horizontal Land
Development

Vertical Building
Development

Value-Add (Re-)
Development

Acquisition & Ownership of
Stabilized Assets

General Contracting (GMP,
guarantees, etc.)

FINANCIAL RISK ROLES

Balance Sheet Investor

GP/Co-GP, JV Partner

LP Investor

Fund/ SMA Manager

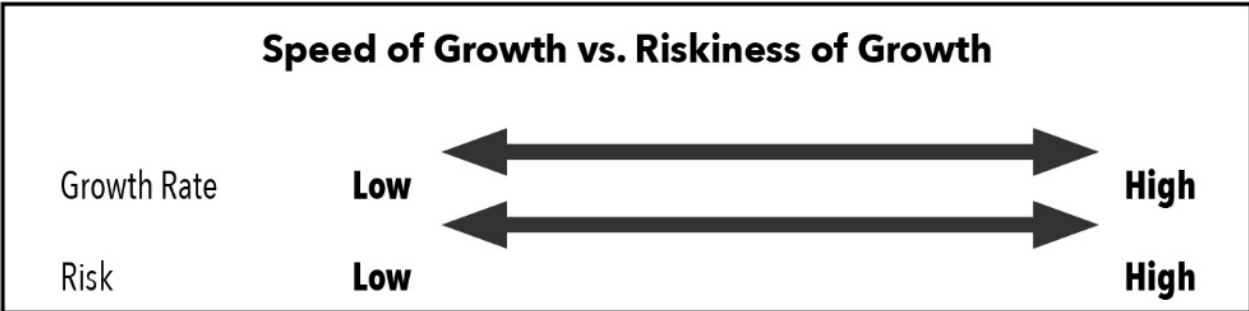
Debt/ Mezz Lender

Growth & Geographic Deployment Strategy

Growth and geographic deployment strategy refers to the ways in which the company and grow the business (e.g., market penetration, product/service/market expansion, etc.), and where it intends to operate (same vs. new market). These strategies are designed to improve a company’s economic performance by leveraging its resources in a manner that creates the lowest risk while providing the highest return.

QUESTIONS:

- ▶ Do we need to look beyond our current deployment to achieve our goals & objectives?
- ▶ Is there a compelling reason to expand beyond our existing markets to diversify risk away from our current deployment strategy?



GROWTH STRATEGY	MARKET PENETRATION	PRODUCT/CUSTOMER EXPANSION	SECTOR EXPANSION	MARKET EXPANSION	NEW BUSINESS
Geographic Market	SAME	SAME	SAME	NEW	NEW
Real Estate Sector	SAME	SAME	NEW	SAME	NEW
Product Type/ Customer Segment	SAME	NEW	SAME	SAME	NEW

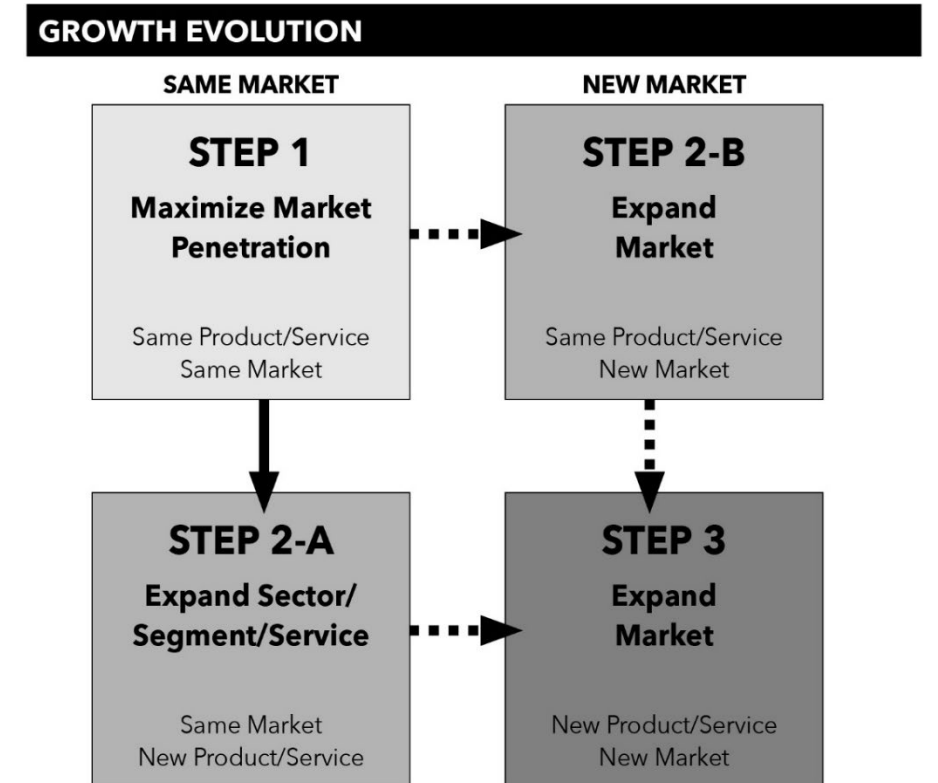
Market vs. Product/Service Footprint

There is significant overlap and synergies between a real estate company's chosen industry roles and decisions about its geographic footprint and growth strategies, and it is helpful in determining the optimal strategy for your situation to think about the company's philosophy regarding how "narrow" or "diverse" the company intends to be on these two dimensions.

QUESTIONS:

- ▶ How focused vs. diversified do we want to be over the strategy plan horizon?
- ▶ Where is the greatest opportunity(ies) and how can we differentiate ourselves in the marketplace?
- ▶ What can/should we do to achieve "strategic balance?"
- ▶ Have we optimized critical mass and market penetration, before we consider market/product/service expansion?

		PRODUCT/SERVICE	
		NARROW	DIVERSE
MARKET	NARROW	Product & Market Specialist	Product Specialist & Market Opportunist
	DIVERSE	Product Specialist & Market Opportunist	Total Opportunist



Customer & Brand

Customer and brand strategies define what the company intends to do to deliver value to its various customers, including its ultimate end users (i.e., homeowners) and other essential intermediaries and stakeholders critical to executing its business. Branding dovetails very closely with customer strategy, and together with industry roles, are some of the key defining characteristics of the company's overall strategy. The strategy team has identified what it wants the company brand to accomplish and what actions it will take to deliver on its brand promise to each of its key customer groups, including:

Who are the company's customers of the future?

- ▶ The company likely has multiple customers, including: end users (i.e., resident, tenants, etc.); intermediaries (e.g., land sellers, vendors, suppliers, subs, etc.); jurisdictions; investors/capital markets, etc.; employees/associates/team members; owners/shareholders, etc.
- ▶ What does each of these customer groups want, and what will the company do to deliver on its brand promise to each?

What do we want our brand to stand for?

- ▶ What do we want our brand to accomplish for us?
- ▶ What are the characteristics and factors that will differentiate the company in the marketplace going forward?
- ▶ What investments in brand do we need/are willing to make to achieve our brand objectives?
- ▶ How will we measure success/ROI in our brand effort?

Competitive Advantage

Competitive Advantage defines the critical set of skills, talents, and capabilities that the company possesses that enable it to do things better, faster, or cheaper than its peers, which provides the company with a competitive advantage in the marketplace. Using the rating scale below, the Strategy Team will identify the “short list” (no more than 3 to 5) of key Competitive Advantages it will need over the strategy plan horizon in order to succeed in achieving its goals and objectives.

DEFINITION:

- ▶ **Defining a company’s competitive advantages requires you to be specific and concise:**
 - » What are you (do you need to be?) best in the world at?
 - » Better, faster, and/or cheaper than others
 - » Competitive advantage in the marketplace
 - » Key differentiating factor

RATING SCALE:

- ▶ **Determine your company’s current status vs. peers to identify those that you need to maintain or improve:**
 - » “5” = Significant competitive advantage vis-à-vis peers – better than everyone
 - » “4” = Moderate competitive advantage – better than most
 - » “3” = On par with peers – no better, no worse, but not a source of competitive advantage or disadvantage
 - » “2” = Moderate competitive disadvantage – not as bad as some
 - » “1” = significant competitive disadvantage relative to peers – worse than pretty much everyone

Efficiency & Profitability Strategy

This strategy pillar is focused on ways to improve the efficiency and profitability of the company - both in terms of driving more revenues to the top line, and then getting more of those top line revenues to drop to the bottom line.

► **Strategies are typically oriented around ways to:**

- » Maximizing top line revenues
- » Reduce the cost of doing business
- » Increase the speed of delivery
- » Improve customer satisfaction

► **Some examples for real estate companies include:**

- » Optimizing rents/prices
- » Growing ancillary services/revenue
- » Enforcing contracts
- » Found money (e.g., RUBS, amenity fees, etc.)
- » Increasing customer satisfaction (lower turnover, referrals, etc.)
- » Automation/technology/systems
- » Outsourcing/off shoring
- » Product standardization/rationalization
- » Supply chain improvement/bulk purchasing/national contracts
- » Reducing cycle/delivery time
- » Enhancing market position/share

Organizational Strategy

Organizational strategies are about conceptualizing and then designing an organizational structure that will enable a real estate company to achieve its vision, mission, and strategic goals and objectives. It is a physical manifestation of how the company intends to execute its business and optimize organizational effectiveness. Organizational strategies should specifically address a company's human capital needs, including the key functions, skills, and capabilities dictated by its chosen industry roles, product and segments, businesses, geographic deployment, and competitive advantage needs and wants that have been outlined in the proceeding strategy pillars. It should address who reports to whom and who owns what authority to make key business decisions.

KEY ELEMENTS:

► How to Best Organize The Business To:

- » Achieve the company's strategic objectives
- » Pursue its industry roles, growth & geographic deployment strategies
- » Optimize organizational effectiveness, decision-making, company culture, etc.

► Common Dimensions Include:

- » Project vs. Process Orientation
- » Centralized vs. Decentralized
- » In or outsourced functions/capabilities

► Best Practices:

- » Organization structure, reporting lines, roles & responsibilities
- » Staged evolution of organizational chart from current state to desired end state
- » Alignment of compensation with strategy
- » Succession planning
- » Growth and organizational expansion – new markets, products, and services

Capital Strategy

A real estate organization's capital strategy defines what the company will do to fund the strategy it has defined for itself in the previous pillars. It addresses what the company is going to do to both access and then deploy capital to execute on its plan. For real estate companies engaged in capital risk roles, including some of the most risky roles and strategies such as development, designing a robust capital strategy is one of the most important aspects of their overall strategic plan. Real estate companies focused primarily on operating risk roles that typically only require a modest amount of working capital to fund their operations, while capital is important, may focus on other aspects of the company's strategy.

KEY QUESTIONS:

► ACCESS TO CAPITAL:

- » How much capital do we need (debt & equity)?
- » Who are likely sources of capital for us?
- » What is the cost of capital?
- » What is ideal level of discretion of this capital?

► PROJECT VS. ENTITY-LEVEL FINANCING:

- » Working capital to fuel growth of organization
- » Pursuit capital (deposits, dead deal costs, etc.)
- » JV capital

Capital Strategy – 10-YR Enterprise Pro Forma

KEY ELEMENTS/QUESTIONS:

- ▶ **Platform performance/profitability**
- ▶ **Staffing resources & timing necessary to execute the plan**
- ▶ **Uses of capital – how much debt and equity does the plan call for?**
 - » Investor returns
 - » Owner/shareholder distributions
 - » Capex/reinvestment necessary to maintain the value of the assets/portfolio
 - » Co-investment capital (equity) for growth/optimization
 - » Working capital
- ▶ **Sources of capital – known/likely sources**
 - » Internally generated cash flow/NOI from stabilized assets
 - » Capital events – sale/recap of existing assets
 - » Leverage – debt up to risk tolerance/guidelines
 - » Line of credit/revolver

SOURCES & USES OF CAPITAL ANALYSIS

Uses for Capital	How much capital do we need to fund our ambition?
Internal Sources of Capital	How much of this need can be generated from internal sources of capital?
Gap Analysis	What is the gap between our needs/desires for capital and that which we generate internally?
External Sources of Capital	What are the most likely sources of “outside” capital to fill this gap? What are the pros and cons of various potential sources of outside capital, and how is it structured?
Organization Implications	What resources, both internal company and/or potential third-party external, will be necessary to gain access to this necessary outside capital?

Risk Management

Risk management for real estate companies encompasses the identification, analysis, and response to various risk factors. Many of these are common factors facing any business, but there are several factors that are unique to real estate. Primary among these is “market risk” which includes monitoring and responding to changes in economic and real estate market cycles.

More than any other factor, the real estate cycle determines the appropriate strategy of a real estate company.

STRATEGIC COMPANIES...have a process to monitor markets, and then a set of actions (“cycle strategies”) defined in advance to consider deploying at the appropriate time.

RISK FACTORS

- Market Risk
- Financial Risk
- Enterprise Risk
- Operating Risk

PREPAREDNESS STRATEGIES

Defensive = Survive

- Insulate from need to sell/lose assets
- Weather downturns

Examples:

- Tightening down geographic focus
- Ratcheting up underwriting criteria
- (More severe) delay, drop deals
- Redeploy financial & human capital
- Cut overhead
- M&A

Offensive = Thrive

- Position the company to take advantage of market opportunities

Examples:

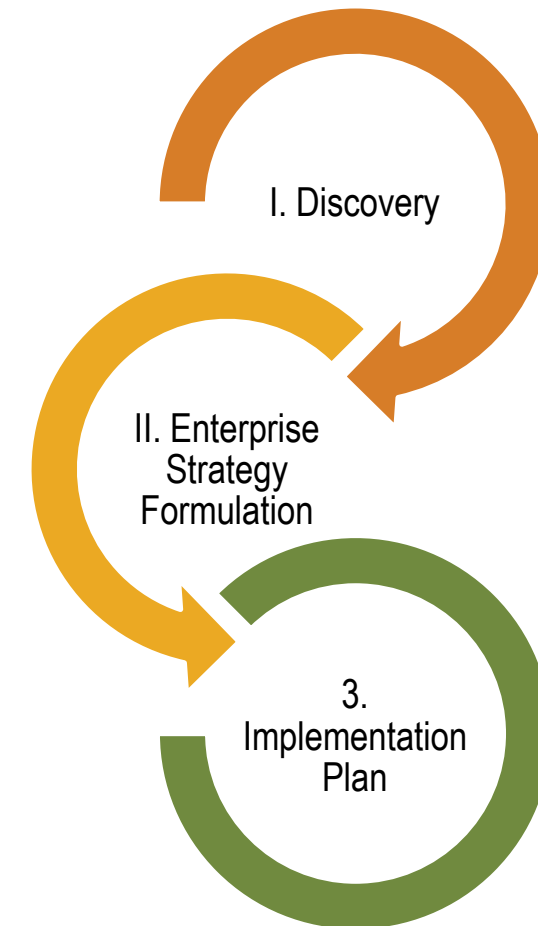
- Maintain strong balance sheet to be consolidator and consolidated
- Hold on to human capital necessary to buy bargains
- Formulate capital and source deals to take advantage of attractive sell-off opportunities

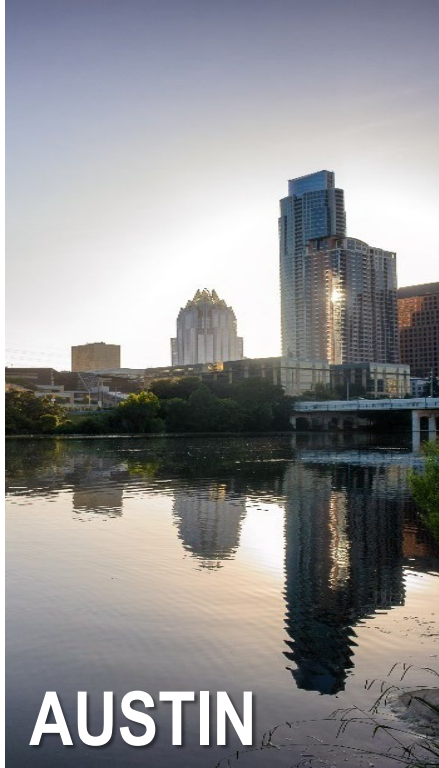
Implementation Strategy

Once the strategy team has completed the “what” and “where” phases of the strategy formulation phase, then the final phase is to translate the strategy into specific tactical implementation plans. It is now appropriate to focus on answering the question “how” will the strategy be put into action to achieve the overarching strategic goals and objectives over the strategy plan horizon?

TYPICAL ELEMENTS:

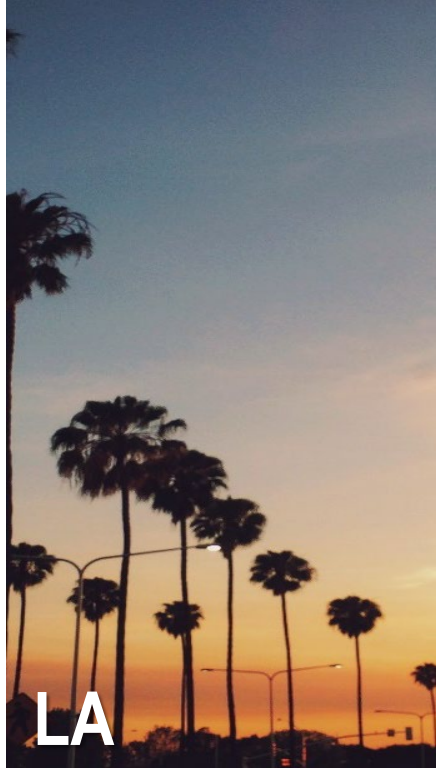
- ▶ **Now time to answer the question “how”**
- ▶ **Convert the strategy into a three- to five-year implementation plan, including:**
 - » Key Implementation Action Items
 - » Responsibilities – champion and team/resources
 - » Deadlines
 - » Key Performance Indicators (KPIs)





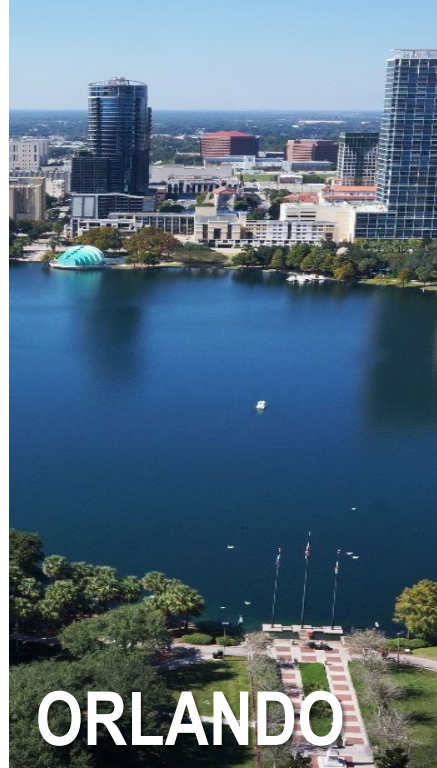
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