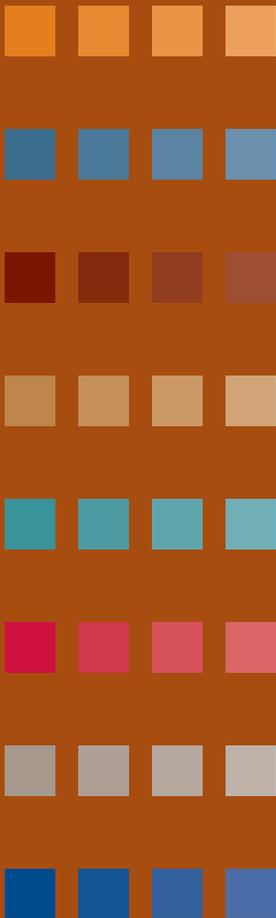


Commercial Real Estate: *An Introduction to Compensation*

Demystifying the Compensation Package



CREW



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Premier Underwriter



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Introduction

*As a follow-up to the 2007 **Minding the Gap Study**, CREW Network's Industry Research Committee has prepared this first in a series of White Papers to assist CREW Network members in developing the skills and acquiring the knowledge that will empower them to advance more quickly in the commercial real estate industry. CREW Network's goal is to provide its membership with enhanced resources and tools to help narrow the employment gender gap.*

INTRODUCTION

Given the increasing competition of the global economy and the intense push for talent, the commercial real estate industry has developed increasingly complex compensation packages to attract and retain top performers. With the broad range of organizations that make up this industry – large and small, private and public, institutional and entrepreneurial – and the variety of functional area positions included in commercial real estate, the compensation programs vary widely. Furthermore, just as it takes a diverse mix of talents to acquire, design, finance, construct, lease and manage a property – the configuration of pay plans designed to determine base pay, incentive

compensation and other benefits to reward these skills are endlessly varied in our field.

There is limited published information to assist individuals in navigating the mysteries of compensation plans – and openly discussing the subject remains one of the last taboos of social discourse. It is one of those subjects about which we just don't share information. Whether participating in an annual salary negotiation with a current employer, or structuring a new compensation plan with a prospective employer, it is no wonder many women in the industry just "don't ask for enough" when negotiating, due to the lack of information available about how to structure the most advantageous compensation package.

PURPOSE OF WHITE PAPER

The CREW Network Industry Research Committee has prepared this introduction to commercial real estate compensation to provide a broad overview of compensation program elements common in the commercial real estate industry. The goal of this paper is to encourage dialogue and to motivate CREW Network members to prepare for salary negotiations with renewed insight and confidence.



The Goal of Compensation

Like other enterprises, real estate organizations develop compensation packages to attract and retain their workers. Effective compensation programs are designed to be market competitive and to focus employees on the corporate goals that will help these organizations achieve long- and short-term strategic objectives. Because the objective of every organization and of each position is different, the structures of the pay packages differ dramatically across the industry.

The human capital cost for a real estate organization is significant: In 2005, the median percentage of salaries as a percentage of operating expense varied from 30 percent to 53 percent, depending on the industry.¹ However, in a service business in which employees directly affect performance, human capital costs (payroll, benefits, training and development) can account for more than *75 percent of overall costs*.²

The Compensation Package

It is useful to view compensation as a *package*, which may include all or some of the following components: base salary, annual bonus, long-term incentives, health and wellness benefits and other perks. While the base salary component is somewhat easier to benchmark in the market, there is greater challenge in obtaining data regarding comparative structures of annual bonuses, and more difficult yet, to uncover the mysteries of long-term incentive programs.

According to figures released from U.S. Department of Labor's Bureau of Labor



Statistics in December 2007, wages and salaries accounted for 69.8 percent of employee costs, while benefits accounted for the remaining 30.2 percent. Whether a law firm, corporation or private development firm, employers spend significant dollars on compensation packages, which along with the cost of real estate, represent the top expense of any enterprise.

¹(Dooney, J., & Smith, N. (2005). Human Capital Benchmarking Study: Executive Summary. Alexandria, VA: Society for Human Resource Management.)

²(Lermusiaux, Yves - Strategic Talent Management (2008), Taleo Corporation. Human Resources Management Solution).

Sample Calculation of Value of Compensation Package		
Employer Contribution		
Compensation	<i>monthly</i>	<i>annual</i>
Annual Salary:	\$10,417	\$ 125,000
Profit Sharing (approximate)		\$ 6,250
Auto Allowance	\$ 400	\$ 4,800
Ownership		
Performance Incentive (7.5% of salary)		\$ 9,375
Total		\$ 145,425
<hr/>		
Additional Income/Benefit Opportunities	<i>monthly</i>	<i>annual</i>
Tuition/ Prof. Exam Reimbursement to \$5,250		\$ 5,250
Total Additional Income Sources		\$ 5,250
<hr/>		
Value of Benefits:	<i>monthly</i>	<i>annual</i>
Medical (individual) - <i>company pays 82%</i>	\$ 316	\$ 3,797
Dental (individual) - <i>company pays 82%</i>	\$ 34	\$ 406
Medical (family) - <i>company pays 66%</i>	\$ 667	\$ 8,007
Dental (family) - <i>company pays 66%</i>	\$ 77	\$ 919
STD - <i>company pays 75%</i>	\$ -	\$ -
LTD - <i>company pays 75%</i>	\$ 15	\$ 178
Life - <i>company pays 75%</i>	\$ 11	\$ 135
Travel Insurance - <i>company pays 100%</i>	\$ 3	\$ 40
401K Matching Limit (\$0.50 per \$1.00 up to 5% of salary)		\$ 3,125
Transit Pass (50% of cost to \$125 per month)	approx.	\$ 354
Gym Membership (75% of cost to \$75/month)	approx.	\$ 675
Vacation (3 weeks)	120 hours	\$ -
Sick time (1 week)	40 hours	\$ -
Personal time (3.5 days)	28 hours	\$ -
Holidays (8.5 days)	68 hours	\$ -
Total Annual Value of Benefits		\$ 17,637
<hr/>		
Employee Contributions:	<i>monthly</i>	<i>annual</i>
Medical (individual) - <i>employee pays 18%</i>	\$ 69	\$ 834
Dental (individual) - <i>employee pays 18%</i>	\$ 7	\$ 89
Medical (family) - <i>employee pays 34%</i>	\$ 344	\$ 4,125
Dental (family) - <i>employee pays 34%</i>	\$ 39	\$ 473
STD - <i>employee pays 25%</i>	\$ -	\$ -
LTD - <i>employee pays 25%</i>	\$ 5	\$ 59
Life - <i>employee pays 25%</i>	\$ 4	\$ 45
Travel Insurance - <i>employee pays 0%</i>	\$ -	\$ -
Total Employee Contributions		\$ 5,626



Base Salary

The base salary, which serves as remuneration for fulfilling the basic requirements of a position, is normally paid on a bi-weekly or semi-monthly basis. Increases, generally calculated as a percent of base salary, are usually granted on an annual basis following a performance review. These annual increases are often small, falling in the 3-4 percent range annually. They are often viewed as an “entitlement” by employees.

While real estate companies are sensitive to the need to maintain competitive base salaries, there has been a trend to put greater emphasis on *variable* portions of the compensation package such as the incentive bonus. This enables an organization to keep fixed expenses under control while compensating employees for delivering performance to the firm.

Consider This...

Corporations generally use a grading system to denote the relative levels of positions within the organization. The assigned grade determines not only the salary range and often title for the position, but can also qualify an employee for additional benefits and perks. An awareness of the salary grade system can be helpful in understanding the flexibility in negotiating the optimal compensation package.

Incentive Programs

The commercial real estate industry offers a wide range of incentive programs. Where a base salary is constant, these programs offer the opportunity for additional *variable* compensation. Organizations utilize these incentives most effectively to align individual performance with company objectives.

Incentives may be awarded for the success of individual performance and may also be tied to the success of the team, business unit or company. Incentives may be awarded for the achievement of performance objectives of an individual asset or portfolio.

In general, higher incentive compensation is paid to those who “create” value within our industry (developers, financiers, acquisitions officers) than to those whose primary job function is dedicated to “adding” value (construction managers, property managers, leasing agents) or to those who “protect” value (accounting, legal, IT, insurance administration). Individuals who directly affect core business productivity and profitability will tend to have higher incentive-based formulas. In most firms, those in positions to have the greatest impact on the ultimate success or profitability of the enterprise are eligible for the largest compensation packages and the most robust incentive programs. In addition, those who take the greatest compensation risk, such as real estate brokers, may also receive the largest rewards.

Emerging Trends: Base Salaries*

Line	Position	2004	2005	2006	2007	% Change 2004–2007
1	Chief Executive Officer/CEO	\$390,100	\$414,500	\$520,800	\$550,400	41.10%
2	Chief Operating Officer/COO	\$348,100	\$363,300	\$376,800	\$427,800	22.90%
3	Chief Investment Officer	\$309,600	\$325,500	\$394,000	\$435,600	40.70%
4	CFO/Top Financial Executive	\$242,600	\$251,900	\$266,100	\$290,200	19.60%
5	Top Business Development Exec.	\$230,000	\$246,400	\$254,500	\$263,100	14.40%
6	Top Human Resources Executive	\$118,600	\$122,800	\$126,600	\$135,600	14.30%
7	Payroll Manager/Specialist	\$62,900	\$64,300	\$66,200	\$68,800	9.40%
8	Benefits Manager/Specialist	\$70,500	\$73,000	\$75,000	\$75,800	7.50%
9	General Counsel	\$247,100	\$256,900	\$278,800	\$303,700	22.90%
10	Top MIS Executive/IT Director	\$131,100	\$134,300	\$138,400	\$147,400	12.40%
11	Network Administrator	\$77,000	\$79,000	\$81,400	\$82,600	7.30%
12	Corp. Comm./ Investor Relations	\$161,000	\$168,800	\$175,200	\$178,700	11.00%
13	Research Director	\$143,200	\$147,100	\$151,900	\$156,400	9.20%
14	Training Director/Manager	\$92,800	\$105,300	\$114,100	\$116,800	25.90%
15	Finance Director	\$176,400	\$183,800	\$194,000	\$199,800	13.30%
16	Controller	\$118,500	\$121,400	\$125,300	\$143,000	20.70%
17	Accounting Supervisor	\$73,800	\$76,600	\$79,900	\$82,100	11.20%
18	Property Accountant - Senior	\$59,900	\$62,200	\$63,900	\$65,500	9.30%
19	Property Accountant	\$47,400	\$48,900	\$51,300	\$52,600	11.00%
20	Financial Analyst	\$75,000	\$77,100	\$79,400	\$82,200	9.60%
21	Tax Manager	\$97,800	\$104,100	\$111,000	\$114,400	17.00%
22	Top Division Executive	\$217,400	\$227,500	\$241,200	\$261,800	20.40%
23	Top Regional Executive	\$223,900	\$231,500	\$244,500	\$252,600	12.80%
24	Top Acquisitions Executive	\$185,600	\$193,700	\$206,100	\$219,800	18.40%
25	Acquisitions Associate	\$95,200	\$98,600	\$103,000	\$111,100	16.70%
26	Top Asset Mgmt. Executive	\$191,300	\$197,700	\$208,500	\$221,700	15.90%
27	Portfolio Manager	\$105,400	\$110,600	\$114,700	\$121,000	14.80%
28	Top Property Mgmt. Exec.	\$175,200	\$182,100	\$190,700	\$201,600	15.10%
29	Off/Ind Prop. Mgr. (< 500k sf)	\$72,300	\$74,600	\$76,900	\$79,600	10.10%
30	Off/Ind Prop. Mgr. (500k - 1m sf)	\$88,600	\$91,500	\$94,400	\$98,400	11.10%
31	Off/Ind Prop. Mgr. (>1m sf)	\$119,800	\$123,900	\$128,600	\$135,200	12.90%

* 75th Percentile.

Source: CEL & Associates, Inc. 2007 National Real Estate Compensation Survey (Office/Industrial).



A Word about Commission: The Ultimate in Pay-for-Performance

Paid as a percentage on a specific transaction in acquisition, leasing, development, financing or disposition activities, commission is the ultimate in pay-for-performance compensation structure.

The Composition of Packages Varies Dramatically Based on Industry Segment and Position

In general, C-suite executives receive the largest percentage of their compensation as variable pay, with the potential to reach multiples of base salary in the form of long-term incentive compensation.

Annual Bonuses

The annual bonus is the most widely used form of incentive or variable pay. This form of additional compensation is generally paid after year-end to reward an individual for achieving specific performance targets. Other forms of performance bonuses may include commissions and referral compensation for securing new business opportunities. Special awards are occasionally made for achieving particular or unusual success, with payouts made on an ad hoc basis.

Typical Incentive Bonus Ranges

Level	Employee Title	Typical Bonus Range (% of Base Salary)	Bonus Cap
I	CEO/President	>100%	No
II	EVP/Managing Director	80% - 100%	No
III	SVP/Functional Leader	60% - 80%	No
IV	VP/Sr. Director	40% - 60%	Sometimes
V	Director/Sr. Manager	20% - 40%	Sometimes
VI	Manager/Sr. Supervisor	10% - 20%	Yes
VII	Supervisor/ Sr. Staff	0% - 10%	Yes
VIII	Staff/Entry Level	Discretionary	Yes

Source: CEL & Associates, Inc.

Typical Performance Bonus Weighting

Employee Level	Company Goals (1 - 2)	Region/ Division Goals (2 - 3)	Individual Goals (4 - 5)	Discretionary Goals (3 - 5)
I	70% - 80%	0% - 10%	0% - 10%	10% - 20%
II	60% - 70%	0% - 10%	10% - 20%	10% - 20%
III	50% - 60%	20% - 30%	20% - 30%	10% - 20%
IV	40% - 50%	20% - 30%	30% - 40%	10% - 20%
V	30% - 40%	10% - 20%	40% - 50%	10% - 20%
VI	20% - 30%	10% - 20%	50% - 60%	10% - 20%
VII	10% - 20%	0% - 10%	60% - 70%	10% - 20%
VIII	0% - 10%	0% - 10%	70% - 80%	10% - 20%

Source: CEL & Associates, Inc.

There are a variety of annual programs which may serve to reward any or a combination of the following:

Individual Performance – Incentive compensation for individual performance is generally calculated as a percentage (%) of base salary and is typically paid on an annual basis in reward for an individual achieving pre-determined goals and objectives. Objectives are generally quantifiable, but are often supplemented with subjective goals.

Team or Group Performance – Rewards are paid for the success of a group in achieving specified objectives. This may take the form of a bonus pool, which is set aside for the team and then divided according to contribution to the effort or by some other measure.

Business Unit Performance – Rewards are paid as above, based on the success of an operating group, division, region or other business unit.

Overall Company Performance - Rewards are based on overall corporate performance in achieving revenue, net profit, asset appreciation or market share benchmarks. It is not unusual for an incentive plan to require that the organization achieve specific profitability targets before a bonus is paid.

Sorting Out Company-Based Performance Incentives

Compensation plans designed to pay incentives based on company performance require an understanding of how the company performance measures are calculated: Are the hurdles based on gross revenue or production; net revenue; net profit; before or after intra-company charges, corporate allocations or overhead?

Payout formulas can be evaluated on business unit, regional or overall corporate achievements and often on a combination of all three. An understanding of specific performance metrics is key to unraveling the potential value of this incentive.

Long-Term Incentives

Long-term incentives are designed to reward individuals for the contribution they make to the success of the enterprise. They reward personal performance but are generally tied to overall company success.

Long-term incentives are used by real estate organizations to attract and retain the upper tier of their talented employees. They are generally used as a vehicle for *wealth creation* for the senior members of an organization, but also serve as *golden handcuffs* that tie a valued employee to the organization for the longer term.

Long-term incentives take many forms and are governed by plans, which are often exceedingly complex. These incentives should be examined with great care to assure an in-depth understanding of all aspects of their governance. These include the following:

- Stock options
- Profit-sharing
- Performance unit appreciation awards
- Performance pool unit awards
- Direct stock share grants
- Restricted stock unit awards
- Restricted stock unit appreciation awards
- Mirror equity

Stock Options

What is the purpose of the stock option?

One of the most widely used and often exceptionally lucrative forms of long-term compensation is the stock option. During the past 15 years, there has been a dramatic increase in the frequency with which stock option plans have been used in the commercial real estate industry, as private sector companies have converted



into REIT structures or have consolidated into global or national entities. Private companies increasingly use these programs as effective tools for competing for top talent in the marketplace.

Once reserved for very top management, stock option plans have gravitated down the management chain and are now available to a broader base of employee participants. The plans can be designed to reward key employees in privately held companies by creating a vehicle for employee ownership or as a means of transferring ownership. They can provide ongoing incentive pay to a larger pool of employees. Stock options can also be provided in a company fund, equity or other investment vehicle as reward for performance.

Stock option plans are established by organizations which determine their specific parameters, detailing who has the right to receive options, the number of shares granted each year



and how much room for growth is provided for additional options for future employees. The liquidity of stock option plans can vary widely. With the institution of Sarbanes-Oxley, stock option grants of publicly traded companies and REITs have become much more transparent than the programs of private companies. Therefore, it is particularly critical to understand exactly how privately held companies' plans function, and to probe details such as how stock price is determined.

How Do Stock Options Work?

A stock option offers an employee the right to buy a certain number of shares in the entity at a fixed price for a certain period of time. The price the company sets for the stock, called the grant or strike price, is usually discounted from the market price of the stock at the time the employee is granted the option.

*There are two principal kinds of stock option programs, each with distinct tax consequences and rules: **non-qualified stock options** and **incentive stock options (ISOs)**.*

***Nonqualified stock options** grant the option to buy stock at a fixed price for a fixed exercise period; gains from grant to exercise are taxed at income-tax rates. **Restricted stock** is an outright grant of shares that are restricted as to the sale, transfer, or pledging; shares are forfeited if the executive terminates employment and the value of the restricted shares lapses.*

*In a public entity, an alternative type of **incentive stock option** may be structured so that grants are extended at a fixed-cash value at the beginning of the performance period and the executive earns a portion of the grant as performance goals are achieved. As the market value of the stock rises, the incentive compensation is earned and the stock can later be traded at a profit.*

Asset-Based Performance Incentives

Real estate organizations may also pay additional long-term compensation based on the success of a specific acquisition, development or other transaction-related achievement in the form of *equity* or *deal promote participation*, enabling the employee to participate in the value enhancement of a specific asset or portfolio. This incentive can come in the form of an *ownership grant* in a partnership or limited liability company, or can represent participation in a single asset or a portfolio.

Such incentives, or *key contributor awards*, can be paid as a percentage of the developer or project profits at key milestones or upon conclusion of the investment. They are sometimes granted in the

form of *phantom asset participation* without real title or ownership in the asset or portfolio.

As noted, these long-term incentives are exceedingly complex, with intricacies beyond the scope of this paper. Grants of this nature should be examined with great care and reviewed with legal counsel to insure an in-depth understanding of all aspects of their governance.

Healthcare, Wellness and Retirement Benefits

Healthcare and wellness benefits may add significantly to the overall value of a compensation package, depending on the cost to the employee, coverage, insurer and available plans, among other things. As anyone who has been self-employed knows, for individuals outside a corporate or group setting, the cost of health insurance is extraordinary and may in fact be inaccessible at any price.

The availability of a Flexible Benefits Program with Eldercare and Childcare provisions and a Flexible Spending account can add value to a package. Similarly, whether and to what extent a company has established and contributes to a 401K and/or other retirement benefits plan, may also add significantly to the overall value of a compensation package. These plans should be reviewed in detail and attention should be paid to such particulars as whether the employer offers to match employee contributions, and at what rate and how much an employee may contribute to the plan before and after tax. In addition, it is important to clarify the flexibility of the plan and its withdrawal provisions.



Vacation and Paid Time Off

To many of us, the value of paid time off may surpass the value of actual cash compensation. The amount of granted time off can vary dramatically from two weeks to two months. Other time off considerations can include working a shorter workweek, availability of a sabbatical, and the opportunity to work from home.

Mandated Benefits

In addition to the more transparent aspects of compensation listed above, every organization is required to contribute mandated benefits for workers, which may differ from state-to-state. These include Social Security and Medicare, Federal Unemployment Insurance, State Unemployment Insurance and Workers' Compensation. Employers spend significant dollars on this aspect of the compensation package.

Other Forms of Perquisite Compensation

Other compensation perks may be awarded based on position, level and role, and may include reimbursement for conventions, events, publications, designations, as well as:

- Membership in professional clubs or business associations
- Educational subsidies or matching grants
- Car allowance or vehicle usage
- Travel subsidies or stipends
- Membership in airline lounges
- Health club membership
- Child care and elder care
- Business development allowances
- Support of designated charitable organizations or events

Sample Architectural Firm - Value of Benefits Calculation		
	<i>monthly</i>	<i>annual</i>
Medical (individual) - <i>company pays 82%</i>	\$ 316	\$ 3,797
Dental (individual) - <i>company pays 82%</i>	\$ 34	\$ 406
Medical (family) - <i>company pays 66%</i>	\$ 667	\$ 8,007
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STD - <i>company pays 75%</i>	\$ -	\$ -
LTD - <i>company pays 75%</i>	\$ 15	\$ 178
Life - <i>company pays 75%</i>	\$ 11	\$ 135
Travel Insurance - <i>company pays 100%</i>	\$ 3	\$ 40
401K Matching Limit (\$0.50 per \$1.00 to 5% of salary)		\$ 3,125
Transit Pass (50% of cost to \$125 per month)	approx.	\$ 354
Gym Membership (75% of cost to \$75/month)	approx.	\$ 675
Vacation (3 weeks)	120 hours	\$ -
Sick time (1 week)	40 hours	\$ -
Personal time (3.5 days)	28 hours	\$ -
Holidays (8.5 days)	68 hours	\$ -
Total Annual Value of Benefits		\$ 17,637

A Note about Law Firm Compensation

Law firms compensate associates with a fixed base salary, together with a bonus, if earned, generally based on some combination of performance, billable hours and overall firm contributions. An associate bonus will often be based on both objective and subjective criteria, with the objective measure generally being formulaic and consisting of the number of billable hours over some minimum billable hour threshold. For example, for every 50 hours above a target number, the associate will earn a specific bonus, which also correlates with that associate's "class" or level of experience with the firm; however, a firm may also consider here how much of these billable hours were actually billed to, and paid by, a client. The bonus often includes a subjective component as well, which is usually discretionary and rewards such things as good citizenship, initiative, teamwork, pro bono or charitable work, business development efforts, mentoring, etc.

However, as Eugene Miller, chairman, Miller Starr Regalia, points out, for an associate this type of bonus is short-term reward established to retain these employees. "The real reward – the carrot – is to become a shareholder" or equity partner of the firm with much great upside, and a significant portion of compensation tied to the profitability of that firm.

As an entry-level shareholder or equity partner of a law firm, a new partner is provided with a standard number of shares, percentage interest or other reflection of an interest in the profits or "equity" of the firm. Depending on whether the new equity



partner is promoted from within, or is hired from outside as a "lateral hire," this number or percentage is typically based on level of experience, professional accomplishments and originations (or revenue generation) - with those being promoted from within often starting at a lock-step number or percentage. As individuals advance through the system, other factors may affect an equity partner's share of the law firm pie, which is periodically adjusted, but not always annually - sometimes bi-annually or otherwise.

These adjustments are typically made by management, through a compensation committee, and may be based on overall contributions to the firm determined by such factors as individual revenue generation, practice group and/or office production, referred business, supervisory responsibility, mentoring, administrative burden, etc. In the past,

these numbers or percentages typically remained flat or increased, but more often, firms are decreasing an equity partner's interests, based on prolonged decreases in production, or a significant diminution of overall practice group production.

As law firms have grown exponentially and globally over the past 10-15 years, they are also increasingly promoting or hiring partners who do not, at least initially, have an equity interest in the firm. Special designations such as "counsel" or "of counsel" are often implemented to recognize those who have achieved some degree of professional and/or revenue-generating success, but do not necessarily meet the minimum levels for acquiring an equity interest. In these cases, discretion in fixing the compensation package, which is usually some combination of base, incentives and bonuses, but without the share in profits, is generally far more extensive than in the cases of associates or equity partners, and often more subject to fluctuation, depending on the achievement of milestones.

In any case, in law firms, as Miller suggests, compensation is largely determined by the "ability to generate one's own practice – to be proactive and become self sufficient." He cautions that, in addition to striving for this, every person needs to be concerned with the many intangibles: "You need to consider life balance."

Additional Compensation for New Hires

At the time of the new hire negotiation, additional special compensation may be agreed upon. These special incentives may be offered to compensate for money "left on the table" in a transition to the new employer.

Examples of these include:

- Sign-on bonus
- Guaranteed bonus for first year or a specific time frame
- Guarantee of inclusion in specific ongoing business or account
- Tax gross-up

Relocation Expenses

Expenses involved when moving to a position that entails relocation can be significant. These expenses are often negotiable and can add significantly to the compensation package. Tax consequences need be considered when negotiating the coverage of these expenses.



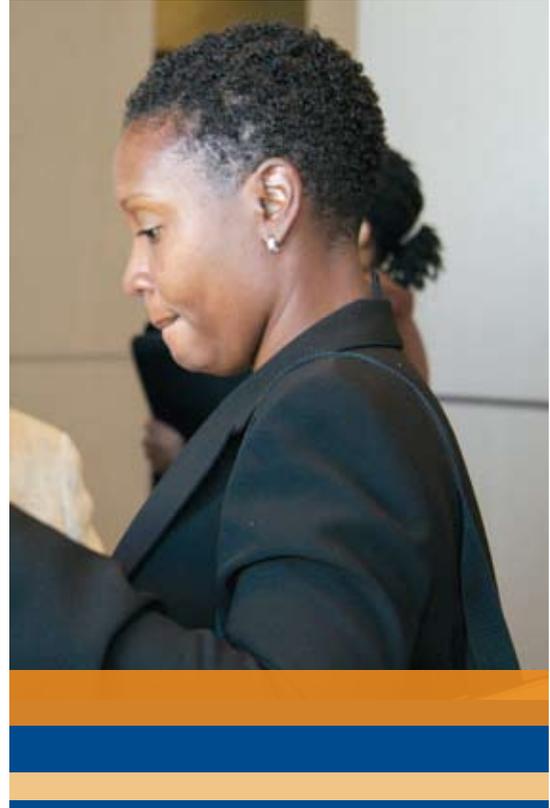
Tips for Improved Compensation Package Negotiations

Whether negotiating a compensation package with a new employer, or asking for a raise from a current employer, approaching the meeting with ample preparation and solid data will yield positive results:

- **Don't be a shrinking violet** – Speak with trusted mentors and colleagues to gain objective input regarding strategy and approach in negotiations. Prepare a compelling business case. Write notes. Prepare to address objections. Rehearse your presentation with your mentor before going in to the meeting.
- **Seek benchmarking advice** from a professional executive recruiter in advance of detailed salary negotiations. Executive recruiters can be the best source for current compensation due diligence.
- **Develop a clear picture of performance expectation and reward**
In addition to requesting a detailed position description, ask for detailed performance measures and targets. What is considered “at expectation” performance? What is considered outstanding performance? What is the expected compensation at each level? Is there a cap on incentive compensation? Get it in writing.

When negotiating a compensation package with a new employer you have your greatest opportunity to make significant advances. Consider the following:

- **Have your executive search consultant negotiate** on your behalf, so as to minimize the possible strain the process can have on an ongoing relationship.



- **Employment contracts** are few and far between and are very challenging to implement. In most cases, they are not industry norm except for very high-risk or unusual C-level situations. However, pre-negotiated severance agreements do exist and, while there may be a standard company policy, special enhanced programs can sometimes be negotiated.
- **Ask for a guaranteed minimum bonus** for the first year (and maybe second year) if there is a “start-up” period. Do not neglect to address the special compensation that may be available to “new hires” – see section “Additional Compensation for New Hires.”
- **Consider the salary grade** of the position and how that may affect the compensation package.

Trends in Commercial Real Estate Compensation

The CREW Network Industry Research Committee has garnered the following commentary from executive recruiters and compensation consultants that may help you understand the trends in the industry in order to refine your salary strategies:

- With the challenge of the shifting economy in 2008 and the increase in pressure from global competition, the industry will feel the compression on base salary compensation with the focus on maintaining fixed costs. On balance, there will be an ongoing emphasis on enhancing short- and long-term incentive programs that focus participants on achieving specific profitability and success targets for the enterprise.
- Despite the threat of a recessionary dip in 2008, there is expected to be continued competitive demand for seasoned commercial real estate professionals, especially those candidates who have experience

operating through different market cycles, with different product types or in varied markets. As such, pressure will be on companies to continue to create improved compensation plans to combat recruitment and retention challenges. More and more “traditional” real estate firms will continue to overhaul their compensation plans so that a broader base of participants can share in both annual and long-term incentive compensation. Discretionary (subjective) bonus payments will continue to disappear, with a greater movement towards highly structured, multiple tiered performance-based incentives.

- Benchmarks for achieving thresholds for earning incentive and performance-based compensation will become better defined, with “harder” tests or more detailed criteria set forth by many companies. Full payouts will become tougher to achieve. The trend toward more appropriate “pay-for-performance” compensation packages will increase over structures which have lower correlation to company success or failure.



- The ratio of short-term (annual) incentive compensation versus long-term (multi-year) performance rewards will increase. Base pay and annual bonus components will be exchanged for higher long-term performance upside.
- The impact of increased teaming and collaboration in the brokerage environment will result in less individualized “star” pay and more team-based production awards.
- There will be continued pressure from employees to demand more transparent compensation structures rather than typically confidential and “black-box” payouts. Best practice companies will continue to become more open book about how they calculate and award variable elements of compensation such as annual performance bonuses and long-term incentive plans.
- There will be continued reduction in “entitlement” type or lavish perk benefits
- Best practice companies will continue to develop and formalize the measurement and assessment of non-financial considerations as a key supplement and reinforcement of shareholder value in compensation calculations. More real estate firms are discovering that these qualitative metrics can drive business success and profitability, and therefore should continue to impact incentive compensation. Examples of non-financial considerations will include:
 - *rewards for management effectiveness,*
 - *environmental stewardship,*
 - *promoting ethnic and gender diversity,*
 - *community service,*
 - *workplace safety and*
 - *other non-dollar metrics.*
- Over the next decade, the percentage of full-time to free agent or part-time temporary employees or independent contractors is expected to increase. As such, new incentive programs will need to be created to provide shorter-term rewards for workers who may not be long-term.



Industry Resources

Industry Resources for Better Understanding Commercial Real Estate Executive Compensation

Web Sites with Real Estate Industry Compensation Information:

www.celassociates.com

This website provides a summary of data compiled for the annual compensation survey the firm markets to the real estate industry. Base salary and bonus information is provided for key positions along with a review of industry trends.

www.christophergroup.net

This firm provides executive search services to real estate and mortgage clients. The website site provides an interactive salary calculator which enables one to measure base and bonus information by title and location.

<http://www.shrm.org/>

The Society for Human Resource Management (SHRM) is the largest professional association devoted to human resource management.

<http://www.worldatwork.org/waw/home/html/home.jsp>

Website of leading not-for-profit professional association dedicated to knowledge leadership in total rewards, compensation, benefits, and work-life.

www.hr-guide.com

The site provides general Human Resource data. Although the target audience is the Human Resource specialist, the site has helpful data for job seekers on the components of a compensation package, defining such issues as merit pay, individual and group incentives and profit sharing.

<http://www.heidrick.com>

The firm provides executive search services to a broad range of industry groups, specializing in C-level placements. Site offers a variety of articles on compensation.

Suggested Executive Recruiter Web Sites for the Real Estate Industry:

www.equinoxsearch.com

Equinox Partners' site provides information on the executive search practice. Equinox Partners provides compensation consulting including cash compensation, long term incentives, severance provisions, and contract design and negotiation. The site can be used as a resource for information on the executive recruitment process, articles on current talent trends and for better understanding the basics of compensation comparative analysis.

www.selectleaders.com/network/jobBarometer

Backbone to the CREW Network Career Center, aggregator of CREW Network jobs from 12 different industry associations. The site offers results from the first SelectLeaders Job Barometer report, compiled by SelectLeaders, an online job board for the commercial real estate industry, in conjunction with Cornell University's Program in Real Estate. One can subscribe to the site and receive electronic updates on available real estate jobs and opportunities, and information on commercial real estate industry trends.

www.realestateexecutivesearch.com

Sharon Krohn Consulting provides executive search services for the real estate and related industries, as well as organization consulting targeting organization's processes and leadership effectiveness. The site offers concise information on the executive search process and provides helpful tips for both the hiring executive and for the job seeker. Sharon Krohn is an active member of CREW Chicago.

www.fpladvisorygroup.com

FPL Advisory Group LLC site provides multiple surveys on the real estate and related financial services industry. The site provides a number of interesting surveys that address industry hiring trends and forecasts.

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The mission of CREW Network (www.crewnetwork.org) is to advance the success of women in commercial real estate. CREW Network does this by looking outward to bring more women into the industry, showcasing member successes and serving as a key resource to its members and the industry. CREW Network members represent all disciplines of commercial real estate — every type of expert required to “do the deal.” Members comprise nearly 8,000 commercial real estate professionals in 66 chapters across North America.

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