

CEO UPDATE

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Groups fight 'activist' agenda in court

New laws and regulations spur increase in litigation; agencies cited for 'gross overreach'

By William Ehart

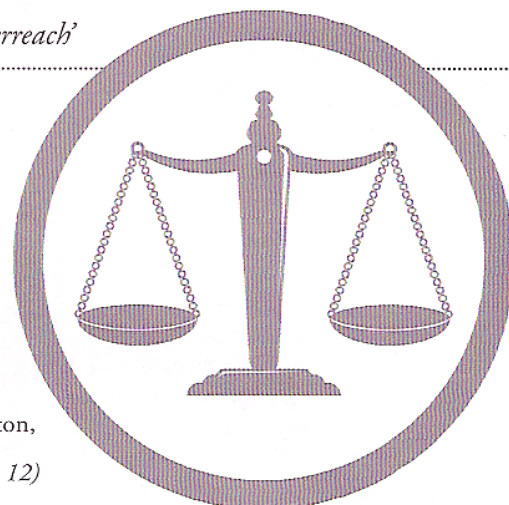
If at first you don't succeed—try litigation. Industry groups are increasingly turning to the courts to protect members from what they see as a wave of regulations from the Obama administration.

It's a tide they've fought every step of the way for two years, with heavy lobbying before Congress, the White House, the regulatory agencies—even on the campaign trail, with substantial campaign contributions to Republicans during the midterm elections.

Some regulations stem from the president's signature legislative initiatives—the financial and health care overhauls that industry was unable to prevent from being enacted—but others are issued by what business groups say are activist regulators.

"We're seeing more and more businesses and professions being affected by regulations," said Chicago-based attorney Jonathan Howe, of law firm Howe & Hutton,

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Still looks like a tenants' market for Chicago associations

But when choosing new premises, many organizations place their staffing strategy and transportation access before savings

By Matt Alderton

Although the commercial real estate market is on the cusp of recovery in downtown Chicago, the Windy City remains a tenants' market, to the benefit of Chicagoland associations, which continue to enjoy lower rents and more attractive concessions than their counter-

parts in Washington, D.C.

"The market still favors tenants overall," said Gregg Witt, senior vice president and Chicago practice leader of the nonprofit practice group at real estate services firm CB Richard Ellis.

According to CBRE's most recent market report, vacancy rates in Chicago's central business district reached their lowest level in six quarters

during the second quarter, when they fell to 14.5 percent from an average of 15 percent in 2010. Meanwhile, average asking rental rates increased for the fourth consecutive quarter to \$31.82 per square foot from an average of \$31.69 in 2010.

By comparison, second-quarter vacancy and

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Still looks like a tenants' market for Chicago associations

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rental rates in Washington, D.C., were 10.1 percent and \$49.63 per square foot, respectively. Associations' real estate dollars will therefore go much further in Chicago, even with falling vacancies and increasing rents.

"It's getting tighter downtown, but you're still talking ... 18 million square feet of vacant space," Witt said. "That's a lot of space."

Although the real estate market in downtown Chicago is transitioning in favor of landlords, the market in suburban Chicago still belongs firmly to tenants, according to CBRE, which placed suburban vacancy and rental rates at 23.1 percent and \$20.77 per square foot, respectively, in the second quarter.

"In the suburbs, it's a lot worse" from the landlord's point of view, Witt said. "Rents are lower and concessions are a little stronger."

Chicago's northwest suburbs are the most competitive. "That's where you're going to get the most concessions," said Joe Dvorak, executive vice president of the Office Advisory Group in the Chicago office of real estate services firm Colliers International.

"The average is one month free rent for every year of the term of the lease. In addition, you'll get a full build-out of your office space designed by an architect, and maybe relocation costs, cabling costs, etc."

Even outside the more affordable northwest suburbs, deals abound for Chicagoland associations. "Landlords view associations as excellent potential tenants because associations don't move very often," Dvorak said. "Now is an excellent time for tenants to lock in below-market rates for long periods of time."

Associations favor O'Hare, downtown

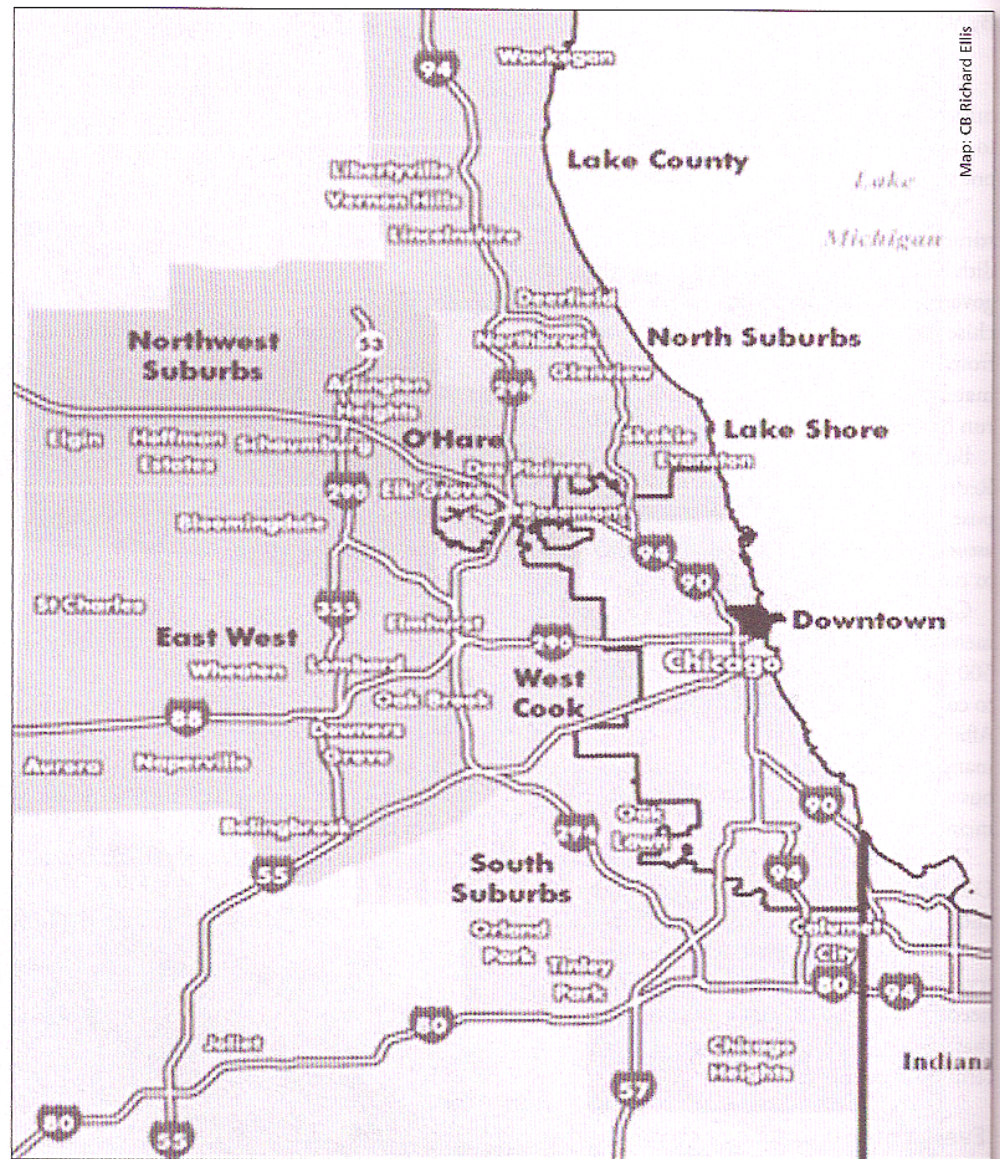
Despite generous concessions in some areas, most Chicagoland associations are remaining in place.

"Two-thirds of association tenants have stayed and renewed their leases," Witt said. "Maybe a third have moved."

Of the organizations that have moved, few have gone far. "It's very unusual for an association to move from one market to another," Dvorak said.

The most sought-after Chicago markets for association headquarters are:

Near northwest suburbs: In the same way that D.C. associations covet access to the Capitol, Chicago associations desire access to infrastructure. As such, the near northwest



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—JOE DVORAK
EVP, OFFICE ADVISORY GROUP, CHICAGO
COLLIERS INTERNATIONAL

suburbs, including Park Ridge, Rosemont, Des Plaines, Elk Grove Village and Mount Prospect, Ill., are desirable for their proximity to O'Hare airport. Groups located there include the American Academy of Pediatrics and the American Society of Anesthesiologists.

East-west corridor: The suburbs west of

Chicago along Interstate 88 offer easy access to both O'Hare and Chicago Midway airports, not to mention several expressways. West suburban Oak Brook, Ill., is especially desirable for its abundance of hotels, which service corporate anchors like McDonald's and Ace Hardware. Nonprofits in this area include Lions

Club International and the American Society for Gastrointestinal Endoscopy.

Downtown: The West Loop in downtown Chicago—in particular, the Wacker Drive corridor—is home to many associations because it offers access to the L, Chicago's subway, and the Metra commuter rail lines that connect downtown to the suburbs via Union Station and Ogilvie Transportation Center. Among the groups recently relocating to the Wacker Drive corridor are the American Hospital Association, which moved to a new, 118,000-square-foot headquarters in May 2010.

"The West Loop continues to be the most sought-after area downtown because of the proximity to transportation," said Jesse Van Dyke, senior vice president in the Chicago office of real estate services firm Jones Lang LaSalle. "Recently some large corporate users have committed to long-term large leases in this area. Because of this we're actually seeing this submarket tighten."

Staff trumps savings

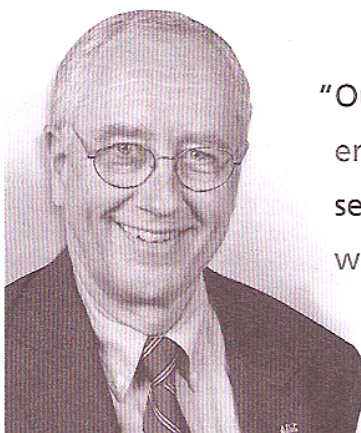
Where political concerns drive many real estate decisions in Washington, D.C., attracting employees is key in Chicago, local brokers agree. For instance, many Chicago-based companies—including United Airlines, Motorola, Sara Lee, Walgreens and Sears—have recently moved, downsized or otherwise reconsidered their suburban operations in favor of downtown office space in hopes of attracting new talent.

For associations, however, it's more important to retain existing employees.

"One reason Walgreens or United want a big presence in the city is because that's where the young people are that they want to hire," Witt said. "Associations are a little bit different because staff is typically not younger. Oftentimes they're driven by where their executive staff lives, or by proximity to O'Hare, since associations are very meetings-focused."

Typical of Chicagoland associations is the Healthcare Financial Management Association, based in Westchester, Ill., near Oak Brook. Before its 15-year lease expired this summer, it commenced a search for new space and looked hard at more affordable areas in the northwest suburbs near O'Hare airport.

Ultimately, however, the decision was to renegotiate with the current landlord, and move into a new space within its existing office complex.



"Our staff likes living in a dense urban environment where they can have all sorts of services before and after work. That's just who we are."

—PAUL FARMER
EXECUTIVE DIRECTOR AND CEO
AMERICAN PLANNING ASSOCIATION

"We have a pretty stable base in terms of our staff and didn't want to do anything that would drastically upset that," said HFMA Vice President of Chapter Relations Susan Brenkus.

When it moved into new headquarters in Chicago's Loop last summer, the American Planning Association made a similar decision. Although it did not renegotiate with its old landlord, the group kept its office downtown to retain staff.

APA Executive Director and CEO Paul Farmer said, "Our staff likes living in a dense

urban environment where they can have all sorts of services before and after work. That's just who we are."

Neither HFMA nor APA made their real estate decision in order to minimize costs; instead, both moved to maximize productivity. "Having been in the same office for 15 years, we hadn't utilized the space in the most efficient manner," Brenkus said. "This was an opportunity to start from zero and build our office in a way that was going to be most efficient for our business." ■

MARKETING GROUP MOVES FROM D.C. TO CHICAGO

After 15 years in Washington, D.C., Point-of-Purchase Advertising International moved its association headquarters from Alexandria, Va., to Chicago.

Founded 75 years ago in the greater New York area, POPAI relocated to Washington, D.C., in the 1990s to concentrate on advocacy. As an international association for the marketing-at-retail industry (think product floor displays), a sizable segment of its membership at that time consisted of tobacco companies, which were engaged in a policy fight over the right to advertise cigarettes inside retail stores. Therefore, proximity to the Capitol was key.

"We lost that battle and new regulations severely restricted the opportunity for any form of in-store advertising of tobacco products, so that segment of the membership left the association," explained POPAI President Richard Winter.

The tobacco companies took with them the need for an active advocacy function within the association, which has since taken a team approach to lobbying as part of a coalition of advertising industry groups.

"Therefore, being on the front lines became less important and we began focusing

instead on how to serve our members in other areas, like research and education," Winter said.

Given its new focus, POPAI saw an opportunity for strategic change when its lease expired earlier this year. "Our landlord wanted the space back for other purposes, so we had to find a new home," Winter said. "We used that opportunity to analyze on a broader scale where the association should be based."

POPAI, which moved in June, ultimately settled on Chicago because of its affordability—its new space costs a third less per square foot than its previous lease—and the geography of its members, 25 percent of which are based within a two-hour drive of Chicago, with many others traveling through frequently on business.

"We've already had three members come and visit us in our offices; in the first 18 months I was with the association, we had only one member visit us in D.C.," Winter said, suggesting that members are more likely to attend committee meetings and education events in Chicago because it's a commercial center for advertising and retail. "Certainly, Chicago seems to be a better fit for us at this time."

—Matt Alderton