

Surviving the Extended Recovery: Real Estate Careers over the Long Haul January 2010

A year ago I wrote a piece called “Weathering the Storm.” It was my end-of-the-year musing and thoughts for companies and individuals in real estate on orienting to the realities of what had not yet been realized as the “Great Recession.” Colleagues and friends told me that it was too pessimistic a piece, but it actually understated the severity of the problem and the timetable to recovery, particularly for employment in the real estate industry. As we start 2010 what is our message for companies and individuals as they continue to navigate their way through the downturn?

Phase one was the free fall. The good news is, that from most accounts, the free fall is over and we’ve pretty much hit bottom. The bad news is that there will be no immediate recovery and that we will be bouncing around on the bottom with aftershocks (potholes, other shoes dropping, with some random good news) along the way. Phase two of the Great Recession, the extended recovery, will be a several year process. Holding us back from recovery is continued high unemployment, lack of job growth, lenders still kicking the can, continued bank failures, the CMBS maturity overhang, and no new debt vehicle to replace CMBS. When these factors, particularly employment, turn around, the current slow thaw will turn into springtime, deal flow will finally start, the money waiting on the sidelines will be spent, and the market will repair. But that is 2011, 2012, or even 2013.

While we are in for an extended recovery, the end of the free fall is significant. It means that companies can start planning once again and begin building their ships for the future. Weary troops still need to make it through the long doldrums, but we have seen our clients begin to improve their teams (the upgrading of talent, given all of the strong people out there, is absolutely taking place), create new strategic positions, conduct succession planning, and focus on continued efficiencies by cutting unnecessary layers or redundant roles. There are continued job cuts but now it is strategic and planning-for-the-future versus bloodletting. Forward-looking companies are proactively building the teams that they will take into the next cycle.

The REITs are well positioned, at least structurally, since they currently have the best access to capital. Sector-wise, although hard hit by the jobs market, apartment companies are best positioned due to the liquidity provided by the GSEs, although there is uncertainty on the Hill with regards to their future. In each sector (think property type) and business model (think ownership structure, like REITs, private equity funds, private owners, and even non-profits) there will be winners and losers. There are those who will clearly survive and take market share and those who, at the least, are in the penalty box and might never recover. It is not yet clear which companies will emerge on which side of the equation. It is a dynamic time, therefore, of market share opportunity alongside threats to survival – no company can take their eye-off-the-ball in this environment.

What do we tell our friends planning their careers in the business? For employed people who are not (at least yet) in the “C Suite,” it is a time to be thoughtful, to be watchful, to plan and be thankful of your paycheck. Having a perch still matters as does health insurance, colleagues, and the ability to stay in the deal flow.

But it is also a time to be thoughtful about whether you are at the right company for the long haul. It is not just about money anymore. Are you happy and do you like your colleagues and the culture? Is this the spot where you can best grow? Is this the spot where you can maximize your satisfaction, professional growth, and income over the coming cycle? What do you *love* to do? Which part of your skillset is deepest, where you've become a "category killer" in the field? Where do you want to be and what do you want to be doing in, say five or ten years? As they say in my yoga class, "set an intention" and then keep an eye on that ball to get there.

At Terra Search, we always suggest a dual track. Plan your career internally. Concurrently, plan for a potential exit. It amazes me how few people consciously build their personal brand and a strong network. Minding your career and building your network, both internally and externally, is critical to excelling in your current job as well as building a bridge for what might come next. Finally, use your current job to enhance your resume and to be "in the flow" in terms of market intelligence, deal flow, knowledge, and contacts.

Even though the free fall has ended, the number of unemployed people in the real estate profession remains enormous. And it feels as though most everyone else is *under*-employed, since bonuses and promote structures are not paying and people are still waiting for the next shoe to drop. Ironically, unemployed people might be at an advantage since they are more willing to take risks and will be the ones on the ground floor for new opportunity. Some of our employed friends at well established firms are wistfully looking at their friends at the (non-paying) start-ups while they continue to slog through troubled legacy assets with little thanks from their beleaguered bosses. It's an upside-down world. So, what are we advising?

For employed people, don't be dumb -- don't leave your job. For unemployed people, the message is the same as a year ago except perhaps now, to work doubly hard. The turnaround is closer than it was a year ago and you want to be with a firm that will be able to take advantage. The trick is, as with our employed friends, find ways to keep your network warm, somehow stay relevant in the deal flow, and remain hungry (but not desperate) for the right opportunity. When you are networking, look for "opportunities," "assignments" and "gigs," not "jobs." The jobs are still few and far between and a job-seeker is a turnoff, while a hungry consultant is not.

We also advise people to hook up with other unemployed colleagues both as a support network and to start firms and alliances that might better attract assignments. This is important advice. We think that hitching life rafts together might make a boat that can attract and service assignments as well as capital to thrive as the market recovers.

For small, entrepreneurial firms, making it through these tough times presents similar challenges. How does a developer reinvent their business in times of no development? How does a mortgage banker or a broker make a living when deals are not getting done? At this point in the cycle, an extended vacation is *not* the answer. Indeed, working doubly hard to protect and preserve your market share, contacts, and relevance is imperative. Hence, those who will be survivors are creating new, recession-era business lines, "hanging out around the hoop," "planting seeds," focusing on core values and quality practices, and finding new ways to serve their clients. That's what we've been trying to do in our business as are the other boutiques who will come out the other end with their businesses intact and, hopefully, their market share enhanced.

Maybe the biggest challenge is finding the patience to stick with it through this extended recovery. It doesn't matter whether you are unemployed or slogging it through at a company, this is not fun. Results and rewards are not what they used to be. Patience for the long haul is critical. Similarly, and you will know what I mean, patience from your spouse or partner is just as critical. They need to understand that you are not alone in your business challenges in this marketplace.

As a message for the beginning of the year and beginning of the decade, we count our blessings. This might seem like a Pollyanna way to end a business letter, but this time around it is truer than ever. Perhaps it's because I am in my mid-50's and health issues for friends, colleagues, and our elders loom so large. But I believe it is broader than that. People in our industry seem more open, thankful and generous than during the heyday. Maybe it's because everyone's net worth got whacked at the same time, but people seem to know that we are all in the same boat and want to be helpful to their colleagues through these tough times.

Real estate is a wonderful industry and it continues to be cyclical. Real estate is not going away and it will be a major part of the recovery. New approaches and leadership will help bring us out of the recession and our industry will develop approaches that help resolve sprawl, energy inefficiency, tired infrastructure, homes people can't afford. The game of hot potato that was played in trading assets during the bubble is over. Change is afoot. Today we only know the names of half of the companies that will be leading our industry in ten years. The same holds true for the individuals who will lead our industry. Opportunity is a little further off than we would hope, but it is coming and it is inevitable. Set your sights, your companies, and your career to be a part of it!

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