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TERRA SEARCH VIEWPOINTS

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CONTINUED CHALLENGES IN '09 FOR COMPANIES AND PEOPLE IN THE REAL ESTATE BUSINESS:

Well, we are certainly happy to see the end of '08. But neither are we looking forward to the business environment in '09 – it's gonna be a tough one. We wanted to send this letter out to share our thoughts on the business generally and, specifically, the environment for the human capital side of the real estate business in the coming year.

For context, some comments on the overall real estate market. In a word, it's pretty lousy. Hopefully the big shocks -Fannie/Freddie, Bear, AIG, Lehman, GGP, Madoff-are over. But the dust has not yet settled. The ripples of each of these and the effects of further unemployment, bankruptcies (especially retail), etc. will continue for many months.

Said differently, a bottom won't be found until several quarters after the surprises stop. And until a bottom is found, deal flow will continue to be limited to the unfortunates who have to sell. Even then, no real recovery can occur until there is liquidity and that means some successor to CMBS.

How far off is that? Common wisdom is **2010**, but it could be even longer.

Impacts to Human Capital from a Corporate Perspective

What does all this mean for the human capital side of the business?

Obviously, not a good prognosis for this year. However, one truism will help keep this in perspective – the assets won't go away and someone needs to deal with them. People will be needed to lease them, manage them, asset manage them, account for them, etc. And people need to lead the companies that do this stuff. The assets (be they loans, an equity interest, or the actual property) might change hands, might be in limbo, and they will almost certainly lose value. But real estate professionals will continue to be needed to perform these basic functions.

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Unfortunately, this leaves out some of the functions that are important in an up market – development people (from entitlement through project managers and construction) and transaction people (acquisitions, lenders, investment sales). There will be an oversupply of people in these functions until the market turns. The 80-20 rule applies here, however. The best performers will be able to keep their jobs or fairly quickly find new opportunities; in these functions, the so-so performers might want to find something new.

So, what are companies doing in this environment? They have all cut their development and transaction teams to the bare bones. But many are also cutting headcount on the operational side to trim overhead and are taking the opportunity to weed out lesser performers. Companies are prudently preparing, like the rest of the business world, for a difficult '09 and maybe longer.

Corporately, there will be winners and losers, although everyone is under stress. The losers are overleveraged (particularly if they have short term debt) and did a lot of deals at the '07 and early '08 top of the market. The winners have lower leverage and dry powder to take advantage and grow into the recovery.

The stronger companies will opportunistically hire to take advantage of once-in-a-lifetime distressed transaction opportunities or pick up some of the strong talent that is available. For example, one of our private equity clients hired us in mid-'08 to find someone with the skills to buy troubled debt, a skill-set that they didn't have on their team. Of course, when a key person leaves, say a CFO, they must be replaced and the company will seek either to save dough or upgrade.

'09 will be an interregnum. Not much will happen, but behind the scenes, people, assets and companies will be recombining and, in 2010 and 2011, there will be a robust realignment in our business. That's what happened in the mid-90's and it will happen again. Fortunes will be made and lost, existing companies will go out of business, tread water or grow into the recovery, and new companies (many with faces we already know) will be formed. It's reset (control/alt/delete) time and that means both risks and opportunities.

How to Manage Your Career in 2009

What does this mean for people in the business? If you still have your chair (my new favorite descriptor is "perch"), keep it at all costs. A perch has great value in the world today. At the same time, your stock options or "promote" no longer have retention value, so for the first time in many years, you can afford to make a move. It's ironic that, when the handcuffs are finally no longer holding you back, there are few opportunities to leave for!

Whether you have your perch or not, consider yourself unemployed. I do, even though I am an owner of a business. Who knows how we'll make money in this next year and I think that applies to all business people in the economy. What do you do to keep sharp, keep your contacts, keep adding value, and be ready to pounce? We'll do it in our business at Terra Search and you have to do it whether you are technically unemployed or you still have your old job. You gotta keep your eyes open and think like an entrepreneur.



I advise several things. Again, keep your perch, but with a dual track agenda.

First, work to ensure that you are on the inside track at your firm as it looks to grow into the recovery. Work to be on the inside as a key player in the go-forward business.

Second, track, think seriously about making your jump if the opportunity arises. Maybe only the currently unemployed (and there are many very talented people out there) will have the gumption and motivation, but I doubt it. Our business is full of people looking to make their fortune and, indeed, times of uncertainty are the best times to jump in as an entrepreneur.

Third, deepen your contacts and stay close to your best friends. Whether you stick with your current employer or start your own business (I always advise people to find a partner or partners to start something new), your best asset is the breadth and depth of your relationships.

Managing Through 2009

So, how to cope? Maintaining sanity in hard times is not easy. You have to embrace uncertainty, change, excitement and wistfulness all at once. Sounds flakey, but it takes a kind of Zen attitude to embrace these conflicting feelings when we're so used to up, up, and up for such an extended run.

Crises pull us together. For the first time in a long while, it feels like we are "in this together" both in the business world and also, hopefully, in our political life. While there will be winners and losers, people do find common ground in helping the industry recover generally. We are also excited about Obama and hope that he keeps on his path to embrace the whole and not return to a partisan agenda. These are exciting times and so much is on the knife's edge.

Terra Search has had to embrace the knife edge as well. We are experts at retained, executive search. But few companies are hiring for defined, senior positions. We are taking our own advice and finding new ways to serve our clients. We are using our expertise and contacts to help clients through consulting, helping build temporary teams, "unbundling" the different aspects of our traditional searches, career transition coaching, and helping individuals develop their business plans and new teams. Terra Search is an integral participant in this business and our perch allows us insights to help our clients and colleagues make this period a success.

Not to be Pollyanna, but we at Terra Search are excited and optimistic about the future. We look forward to working with our clients and colleagues through this once-in-a-lifetime period and into the future.

Matt Slepín and the Team at Terra Search Partners

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