

Personnel File

As Uncertainty Grows, Employment Strategies Shift

by Matt Slepín

Is the current downturn a bust, pause or just another fundamental cycle?

While the slump has created a wait-and-see approach, according to many traditional indicators, conditions are fairly solid in the real estate industry. Yet uncertainty rules the day. It also begs an answer to a two-part question: What does the uncertainty mean for employers' hiring plans? And is there potential for long-term, negative impact as a result of the dot-com bust?

Here in the Bay Area, we have seen numerous resumes from dot-com refugees reluctantly looking to get back into mainstream real estate. It's fairly clear that the vast majority of real estate dot-coms have failed or will in the next few months unless the capital markets experience a sharp turnaround.

However, despite numerous failures across the board, the long-term impact of Internet-based technology remains highly relevant today. Many of the mind-blowing dot-com value propositions made for bad overnight businesses. But several are compelling ideas. Many of these will turn out to be viable business models over the next five years. However, it will be through evolution not revolution, and the legacy companies, not the upstarts, will lead the next wave. The start-ups that survive will have traditional, not new-economy valuations. Apart from technology, what are the long-term drivers to executive-level employment? Commercial real estate has changed fundamentally over the past dozen years. These changes are significant and will lead us forward.

Here's a few of the often-mentioned changes:

* Commercial real estate has become a more structured, institutional business. The institutional markets are the ultimate exit for most real estate, be it in the context of a REIT or pension fund on the ownership side or a CMBS, life insurance company, money center bank, Fannie Mae or Freddie Mac execution on the debt side. This change has required a similar change in the types of executives who lead companies.

Public markets and large-scale institutions demand transparency and predictability or they will not play. As a result, businesses with an institutional approach rule on the equity side. The most successful companies place a premium on values such as quality, sustainability, depth, breadth and corporate culture (balanced with a flexible, entrepreneurial approach). The demand for executives who represent these values is at an all-time high.

The traditional real estate entrepreneurs still have an important role to play in the development or heavy value-add process, but ultimately their properties will wind up with the institutional players.

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Consolidation will continue. The stronger companies will be the consolidators and the weaker, smaller companies will get consolidated. In the short term, this means loss of mid-level and senior level jobs (the best of whom may wind up with the real estate entrepreneurs). This will only accelerate the trend toward a more structured, institutional business.

There are still supply-and-demand cycles. However, supply/demand discipline has increased significantly, and we expect it to continue into the foreseeable future.

To help illustrate these points, consider the following example. We are performing a search right now for someone to run the investment side (versus the operating side) of a major real estate fund. We are replacing an unparalleled dealmaker who was more of a solo operator than a team player. Our client has been transforming its business over the past several years to a more institutional model--increasingly, companies want broad-based leaders in senior management positions as they develop their teams over the long haul.

These trends mean only good things for the real estate business. Our industry was the bad-boy in the last recession, but it looks like we may be among the stalwarts this time around. The best companies are hunkering down and using this opportunity to build great teams for the future.

Remember, the 80/20 rule still applies. Companies interested in building new long-term cultures are hungry for top performers. So, if you are among the 20%, go get 'em. Great opportunities exist, even in a downturn.

(Author Credit: Matt Slepik is an executive recruiter based in the San Francisco Bay area.)