terrasearch PARTNERS

BUILDER AND DEVELOPER
The business management resource for homebuilding professionals

Real Estate Continues on the Road to Recovery

By Matt Slepin
January 2014

The recovery of the real estate industry from one of the worst recessions ever is real. How real it is, however, varies widely by property-type segment, region, and, of course, the company that is doing the recovering. From our standpoint as real estate recruiters, we see this best-of-times, worst-of- times dichotomy across the business.

Multifamily was the first out of the recession and benefited from the residential market crash, but it is now fairly mature in its cycle and there's talk about overbuilding in some markets – even talk of how to weather an inevitable downturn. At yearend 2012, single-family home building looked to be following multifamily out of the sump, particularly in regions in which housing was hardest hit by the recession. But rapidly rising prices and an uptick in mortgage rates conspired by mid 2013 to slow the pace of recovery.

From our perspective, there are four measures that form the basis for long-term success in all corners of the real estate industry– strong leadership teams, strong operating platforms, strong balance sheets, and a portfolio and strategy that resonates within a particular sector. If a company has these four key attributes, chances are high that it is poised for long-term success.

From a capital perspective, in a continually institutionalizing business, the order of the world is for the strong to get stronger, which in many cases just means that the big get bigger. In REITland, companies like EQR and AvalonBay have broken from the pack through their joint acquisition of Archstone. Similarly the AMBProLogis merger broke the combined company far beyond the pack in the industrial sector. We have certainly seen this in the private-equity world, where the Blackstone effect is enormous.

In home building, however, while the big public companies made it through the recession more or less intact, they are for the most part smaller and leaner now than they were at peak in the mid 2000s. Many private home builders, lacking access to public capital markets, did not make it through. Many went under, re-organized through bankruptcy or sold out to bigger, better-capitalized companies. This has resulted in publiclytraded home builders gaining market share.

In fact, the top-10 public homebuilders sold 30 percent of new homes nationwide during the first quarter of 2013, up from 24 percent in 2007. This trend is likely to continue. In 2014, we expect a rise in demand for institutional skillset and experience among senior professionals in all disciplines in the real estate industry, including the home building sector, particularly in geographic regions in which recovery is gaining momentum.

There are also some secular shifts in the industry causing increased hiring in some areas. One is in the marketing and sales. In an increasingly competitive market, in which social media has fully taken over from print advertising and where the customer base is a new demographic, the importance and focus of both marketing and head-of-sales positions has evolved. New-school thinking is now essential, particularly for marketing leaders. Another evolved role is in sustainability, which is increasing in importance in multiple sectors of the real estate industry, from owners and developers, to the big service companies, to the home building companies.

We are also seeing increased focus on bringing diversity into the real estate workforce. Having a workforce at all levels, including senior management and in the boardroom, that reflects a company's clients, a company's investors and the company's future market is increasingly critical.

There are signs at year end 2013 that recovery will continue and perhaps accelerate in 2014 in the home-building sector. Builder confidence as measured by the National Association of Home Builders stood at an index of 54 in November, with any number above 50 indicating positive sentiment. The index fell into the mid teens during the worst of the recession. Its peak was in the high 70s in the late 1990s. Building permits rose 6.2 percent for the month of October, a 13.9 percent increase year-over-year, according to the Commerce Department. And new-home sales for October were up 25.4 percent from September and 21.6 percent from October, 2012 to a seasonally adjusted annual rate of 444,000, well below the pace of 700,000 that is considered a healthy market.