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Poise Your Firm for Long-Term Success

If a company has these four key attributes, chances are high that it is poised for long-term success, says Slepin.

By Matt Slepin

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The real estate industry is a tale of have's and the have-nots coming out of the Great Recession. The recovery is real, but from the perspective of the real estate industry, it has been spotty--dependent upon property type sector, geography, capital structure, and other factors. From our standpoint as real estate recruiters, we see this best-of-times, worst-of-times dichotomy across the business. So, for 2014, what do we see as the trends, particularly as they affect executive level employment in the business?

From our perspective, there are four measures that form the basis for long-term success–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. Success is possible in the absence of any one of these elements, but missing two or more suggests it is time for meaningful change. These elements also provide a useful framework for understanding the trends that may lie ahead in the coming year.

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 AMB-ProLogis 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. The big get bigger, hopefully the medium holds its own, and the barriers to entry for the small guys are enormous. We actually fear the challenges for the mid-sized players who can neither articulate a scale-is-better or a best-in-class sharpshooter strategy.

Geographically, the high-tech centers such as San Francisco, Seattle and Austin, and energy producing markets such as Denver, Houston and Dallas, have recovered strongly, with other markets stuck somewhere in a slow recovery. DC is famously in a rare downcycle based on uncertainty and cutbacks, but hopefully the government will find direction and stabilize, which will help both that region and the country as a whole. The recovery has been in favor of downtowns and transit oriented development, but the costs seem to be driving some investment back to the suburbs.

It has clearly been a rolling recovery by property type. Multifamily was the first out of the recession and benefitted from residential market crash. Multifamily is now fairly mature in its cycle and there is talk about overbuilding in some markets – even talk of how to weather an inevitable downturn. There is also the interesting opportunity of institutional ownership of single-family rental, where some of the biggest players in the industry (Blackstone, Colony, Beazer Homes, for example) are betting on an efficiency-scale play in that formerly mom-and-pop business. Given the slowness of job growth overall, it will be interesting to see if the interplay between multifamily and for-sale residential is a zero-sum game where multifamily gives back as residential recovers or whether both can grow as employment continues to recover. Finally, the evolving multifamily business echoes our theme of a business moving more and more towards institutionalization of capital and operating platform.

About Matt Slepin

Matt Slepin is the Founder and Managing Partner of Terra Search Partners, a retained executive search firm helping real estate companies build great teams. Terra Search Partners serves many of the country's foremost REITs, private equity firms, pension fund advisors, private developers and owners, family owned businesses and non-profits. Matt writes frequently on matters pertaining to human capital in the real estate business. To see additional articles written by Matt and others at Terra Search, click through to www.terrasearchpartners.com. Contact Matt Slepin at matt@terrasearchpartners.com or 415.433.2244.