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# Slepin's 2014 Forecast: REIMs to Reap Benefits From Continued Recovery

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*Matt Slepin of Terra Search Partners shares his thoughts here on what investment managers can expect in 2014.*

As we look ahead at what is in store for 2014, particularly when it comes to trends that affect the real estate investment management community, we must first look back over the past year and examine what happened as the recovery of the real estate industry finally began to gain traction, though in fits and starts.

When examined by property type, it has been a rolling recovery. Multifamily was the first to rebound from the recession, having benefited from the residential market crash. However, this sector is now fairly mature in its cycle. There has been talk of overbuilt markets and even of how to weather an inevitable downturn. As for single-family home building, this sector had big early 2013 gains in sales and prices in many of the markets hit hardest by the housing crash. But they largely evaporated in the second half as prices rose too far, too fast.

There was the interesting development 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 is moving more and more towards institutionalization of capital and operating platforms.

Office development, retail and hotel development have been spotty, with these sectors still one to two years behind multifamily in terms of recovery. There are secular changes, particularly in the office sector where both technology and space efficiency have driven down the demand for space. Overall, however, both the fundamentals and the investment market for the different commercial real estate sectors are looking good.

Geographically, tech centers such as San Francisco, Seattle and Austin, and energy markets such as Denver, Houston and Dallas, have rebounded sharply, with other markets stuck somewhere on the road to recovery. Washington D.C., which fared relatively well during the recession, is now in a down cycle based on uncertainty and cutbacks, but hopefully the government will find direction and stabilize, which would help both that region and the country as a whole. The recovery also has been in favor of downtowns and transit-oriented development, but increasing costs seemed to be driving some investment back to the suburbs.

From a capital perspective, the order of the world is for the strong to get stronger, which in many cases just means that the big get bigger. On the REIT side, companies such as 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, the mid-size struggle to hold on to share, and the enormous barriers to entry for the small grow even more so. 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. The other recent merger – Essex with BRE – is an example of this latter challenge.

On the jobs front in the REIM industry, the balance has definitely shifted to an employee's market. Where several years ago everyone was up for grabs, either because they were unemployed or because their long-term comp programs had no value, employment is more sticky in this upswing. In particular, the value of many executives' long-term comp programs is now prohibitive for them to entertain a move.

We also are seeing the graying of numerous titans of the REIM community, who are working past age 65 and often well into their 70s. Yet many have still not developed succession and estate plans. There thus will be increased demand for executives who can both assist in that planning and serve as successors to the legends who built the business.

A final trend is an increased focus on bringing diversity – gender, race, sexual orientation, age and other factors – into the industry. 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.

Organizations who want to succeed over the long term need to focus on developing and maintaining strong leadership teams, strong operating platforms, strong balance sheets, and a portfolio and strategy that resonates within a particular sector.

Though companies need to plan for an inevitable cycle turn, we are now at a point where business is fairly healthy. According to the recently released NAREIM/FPL Executive Compensation Pulse Survey, 82% of participants reported improved company performance for fiscal year 2013 over 2012.

With the Great Recession behind us and the continued rebound of the real estate sectors stretching before us, the REIM community is poised to reap the benefits of this recovery – albeit an uneven one – and make further headway in 2014.

**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.