

Terra Search Viewpoints: The Good Ole Days **By Matt Slepín**

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At this point, we have given up on a return to the Good Ole Days; they are not coming back. Congress and Obama have become totally stuck; we, as a country, don't seem governable. We hear fear of a double dip, but that term itself suggests a return (after dip #1, #2, or #3) back to some version of the Good Ole Days. We are not economists, but we believe that when we inevitably recover from recession, we will recover into a New Normal based on structural changes that had existed, but had not yet gelled, prior to the crash. What are these new realities and how do we as professionals and business leaders in the real estate space adjust and prosper?

The ungovernable piece is one. Maybe it's our zero-sum two parties, maybe it is an electorate longing for the past (and fighting against the realities of a changed world), or maybe it is just the result of our much more limited resources. Whatever the cause, it is hard to imagine effective government anytime soon. Second, globalization is unquestionable. The world has certainly proven to be flat, but it contains the angry, backlash side of the coin as well as the kumbaya, it's-a-small-world side. Third, except for the crazies, there is no longer much of a debate about Global Warming. Politicians and business have accepted the need to adopt green strategies to reduce CO2 alongside strategies to adapt to a warmer environment. Finally, in this globalized world, America is no longer top of the heap in terms of key factors like education, healthcare, and infrastructure; what does this mean for our competitiveness and our future economy?

At the beginning of this year, it felt like we were exiting the darkness of the recession. There seemed to be a light at the end of the tunnel, a glimpsed of a thought that maybe we would indeed return, although cautiously, to the realm of the Good Ole Days. CMBS 2.0 was gaining momentum, investment sales volume seemed to be returning, and indeed our search business felt back on a roll. But the second quarter brought us back down to reality as employment remained flat, CMBS 2.0 fell apart, and the ripples of the failed debt reduction talks, the S&P downgrade, and parallel dysfunctions in Europe sunk in. Now it feels as though the first quarter was the effect of pent-up demand and the settling into the New Normal versus a return to the Good Ole Days.

Real estate in the US is saying crazy, contradictory things. Multifamily is the one sector with largely positive long term drivers. The other sectors all seem more permanently changed by secular changes of technology, globalization, and corporate efficiencies all have deep obvious impact on the other major real estate food groups. Hospitality is, as always, more volatile and the bottom in the residential sector amazingly still seems to be several years out.

So, what does this New Normal mean for the real estate business and what does this mean for the future of your company or for your career? Lots. Indeed, assume constant change and the drivers

discussed above. Neither pine for, nor anticipate getting back to the Good Ole Days as we knew them.

On the investment side, there is a ton of dough out there and trading volume is returning for commercial real estate, especially apartments. Investors continue to clamor for places to place their cash and cap rates for the top markets and properties are as low as ever. It is harder to make money, particularly on momentum plays, but there continues to be a business for real estate investment and the strong professionals in the key disciplines (investment sales, financing, acquisitions, asset and portfolio management, and operations) of the business.

It also means opening up to global opportunities. Many of our clients have operations and investments abroad and see much of their growth going forward internationally, particularly in the BRIC countries. Young people today have the exciting opportunity to embrace the excitement and opportunities that a globalized world presents and pursue an education and mindset to prepare for such.

The secular changes brought about by globalization, climate change, and generational shifts present a different way of creating real estate. It means LEED, it means different planning metrics for building in low lying areas, and it means higher density development across the board. It also means continued opportunities in the public-private space and hopefully it also means opportunities in infrastructure. Development has begun again, albeit with these changed metrics, in the US and will continue abroad. These drivers are real and they are exciting, particularly to young people entering the business.

The frozen solid days of the Great Recession are over. The system has not yet been fixed ó in particular, I was waiting for both CMBS to be reinvented and the Fannie/Freddie mess to be solved before calling the bottom, but even with that, businesses has moved on. Deals are getting done, buildings are getting built, people are getting hired in our industry, and new fortunes are beginning to be formed. Although it is not a return to any prior version of the Good Ole Days, the New Normal is certainly taking shape and the real estate business continues to move forward.