

What a Difference a Month Makes

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Wow, what a difference a month makes! At least on the human capital side of the real estate business, the market has turned a corner with firms emerging from survival mode to full engagement in the future. 2008 and 2009 were all about shock, awe, and survival. 2010 was a continued pause with companies getting their houses in order and their ducks in line. The theme of 2011 will be about companies moving forward with stabilized capital and renewed senior management teams starting to make their mark in this next cycle. Readers of this column have called me too much of a pessimist; this article advances the opposite perspective. What am I seeing to cause the change in tone?

The search business, at least for us, has been the proverbial “canary in the coal mine.” Our book of business was heavy on development professionals during the boom; virtually in sync, our clients cancelled their development searches in late 2007 as they anticipated a market correction. We were equally busy in 2008 with finance and asset management professionals, but with the same outcome in the fall with most of those searches cancelled as the recession hardened. Our business was virtually dead in 2009, and came back moderately in 2010. We experienced a virtual *snip* this past month as our volume increased dramatically. The change is palpable and seems representative of the marketplace, not just the result of our good work.

We attended the National Multi-Housing Council meeting in Palm Springs several weeks ago. It was literally party time at NMHC and, although the apartment sector is clearly the belle of the ball, I suspect the mood will be quite upbeat at the other industry gatherings this spring. We seem to have turned a corner economically, but there is a social need as well. There is pent-up demand to feel good and get back to business, even if the fundamentals do not warrant it. While it might be early in some sectors, people are feeling that at least normalized times are here or are soon to come.

Another indicator is the level of development, at least in the apartment sector. I remember talking with a client just a year ago who said that “merchant building is dead and we need to plan for a different business model.” Well, 12 months later, the stronger merchant builders and the REITs are back in the development business—with a vengeance. And many of those organizations are hiring.

Here is a case study that demonstrates the trend, although in a different functional area. We did a search in 2008, at the height of the market, to help a new West Coast apartment investment platform build an acquisition team. As is our practice, we contacted 75 to 80 percent of the market participants on the search and, as is normal, probably 15 percent of the market agreed “to play” and we were able to help hire an outstanding team for our client. We did the same search for a different client (also West Coast apartment acquisitions) in the spring of 2010 and, with essentially the same talent pool, about 75 percent of the market participants were willing to engage in discussions. 75 percent! This included “employed”, “unemployed” and “recently started their own business” types of people. Almost everyone was at least willing to listen. At the time, we even had the fantasy of holding a reverse auction to see who of the best talent might take the role for the least amount of dough; just a fantasy, but we could have done it. Our client put that search on hold and just restarted

it, so we are currently back in that same market. Of those 75 percent folks, at least half have moseyed into new positions, not always ideal jobs, but meaningful roles, nonetheless. Some of the re-employed are actually willing to play, but only if the opportunity is fully compelling. The result, actually, is back to a normalized market. People will move for real opportunities, but the economics, the platform, the vibe, and the relationships have to be compelling. No more of that reverse-auction fantasy.

Here's another interesting data point, also in the apartment industry. Three of the major brokerage players are in the market for new heads of multifamily investment sales. Two are creating this as a new role, and creating a deeper bench. The other is replacing a retired executive, but with a repositioned platform. Why is this interesting? It points to several trends: first, the service companies—not just owners—are investing in their infrastructure and building their benches for the coming cycle. Second, it highlights what we see as the long term march toward specialization, professionalism, and the need for institutional scale in the business.

What about the AMB/ProLogis merger? A total game changer but one that reflects the same themes as suggested above with, in this case, scale as the undeniable driver. Industrial has some unique characteristics that make scale on an international level particularly compelling. I doubt it, but does this justify similar scale in the apartment business? In the office building business? In the different retail businesses? And does the likely acquisition of ING Clarion by CBRE tell a similar story of consolidation in the investment management business?

One interesting dynamic from the human capital perspective is that these giant organizations typically use their scale to drive efficiencies in numerous ways, including through more specialized job functions. I touted this above, but it is not always successful (EOP famously tried it with less success than advertised) and not always a happy environment for people who've been attracted to the historically entrepreneurial real estate industry. The right place for some, but not everybody. While the big organizations make the news, the smaller-scale, boutique, entrepreneurial companies will continue to thrive and be a major source of value creation within the business.

What does this mean for employers? The headline is that the glut of talent is fast coming to an end and a normalized environment will return. Definitely focus on retaining your best talent through bucks, benefits and opportunities. If you are looking to hire, there is still a window to find talent on the street and with bonuses recently paid (and promoted interests still underwater); strong people ready to make their moves out of the firms where they played in the last cycle. It is still a good time to finish up the rejiggering and build your teams, but don't wait until 2012.

For those seeking opportunities, this will be a far superior year (certainly anything is better than the last several). Continue to follow the advice we've been suggesting during the downturn for staying in the game, but if you are talented and hungry, things should come together in 2011.

Is this a real turn in the fundamentals or just pent up demand driven by abundant capital and human nature? I think probably some of each and we are indeed a bit ahead of ourselves in this swing. But mood drives economic realities and indeed becomes self-fulfilling. I don't want to jinx anything, so let's hope for few new surprises and bumps along this road into the next cycle!