

Leadership, Leadership, Leadership

by Matt Slepik

As we find ourselves in the middle of the first recession since the real estate depression of the early 1990s, the industry is in relatively good shape and fundamentally different from the “bad-boy” industry that led the country into the last recession. Publicly traded real estate companies have helped transform the real estate business from one of a collection of assets to one of long term, world class, operating and investment companies.

The fundamental law of real estate has been amended, moving beyond the traditional three “L’s” (location, location, location). What differentiates companies today is less tangible and can be summed up in another “L” word—leadership. And what differentiates a successful real estate company from the pack now goes beyond being deal savvy to include leadership characteristics like strategy, flexibility, stability, quality of people, integrity and diversity of perspective. Successful real estate companies are not just a collection of assets anymore.

Much has been made of the impact that the public markets have had on the commercial real estate business. The public markets, and institutional capital generally, have fundamentally changed the nature of the commercial real estate business and it is obvious that the impact affects the entire industry, well beyond just REITs. Whether guised as equity or debt, or in the form of public or private market, institutional money now permeates the industry.

Institutional capital has brought increased discipline to the business, which has resulted in the slow but steady pace of consolidation, increased transparency and newfound discipline to what has traditionally been an unruly business. Cowboy entrepreneurs, overbuilding, over-leverage, and tax-driven deals were the “bad-boy” caricatures of real estate in the last recession. Contrast that with transparency, discipline, predictability, clear value proposition, and utility-like returns that are the buzzwords for real estate (especially REITs) in this economy. Real estate is now the poster-child for good citizenship in an era in which all too many companies have helped cause the bubble to burst and exacerbate the current recession.

I like to think of real estate companies having single or multiple strategies operating at various points along the risk-reward continuum. Most of the REITs and advisors have become lower yield, owner-operators that have a longer term, operational and service intensive strategy. These companies will clearly differentiate themselves with the leadership “L.” Contrast these firms with the developer and opportunity oriented players who operate at the more entrepreneurial, deal-oriented end of the spectrum; in these firms, the traditional three “L’s” are still king. Nevertheless, smarts, leadership, strategy and transparency matter to these firms as well.

What Does This Mean?

We are certainly in a time of great uncertainty. There have been few years as tough as 2001. The economy slowed last year from the long-term bull market and the bursting of the e-commerce bubble. San Francisco, where I am based, has been particularly hard hit and is one of the few real estate markets undergoing a significant correction. Real estate enters this recession in relatively good shape but lots of things are on hold. The bid-ask spread has slowed transaction volume and lay-offs have been far more prevalent than hiring.

Smart companies are following a dual strategy. They are using the necessity (or the excuse) of the recession to restructure their business and to lay off their less productive workers. At the same time, they have been selectively hiring to add strong people to their teams. The 80/20 rule that states 20 percent of a group produces 80 percent of the business

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applies everywhere. A recession can be a great time for a company to increase its amount of “80 percenters,” especially since a lot of companies feel that they had to increase their amount of “20 percenters” during the 1998–2000 labor shortage. If your powder is dry, a downturn is a great time to build market share.

Long-Term Planning

What’s most interesting, however, is the long term. Leadership, culture and quality of people are key factors that will differentiate successful companies moving forward. In ways that our industry has never experienced, operations and customer service will be the way in which real estate companies will become truly great. But there are significant challenges to make this transition.

The major challenge remains at-the-top leadership. Most companies are still led by the entrepreneurs who built them and many are still family controlled. Sam Zell likes to share his vision that the two S&P 500 companies he has spawned have transcended real estate and are now big, world-class companies. He predicts that, over the next decade, many of the leaders of the largest real estate companies will be non-real estate people, a la Lou Gerstner.

However, as you stray from the industry, you quickly increase the risk quotient. One challenge for the real estate industry is to attract outsiders at the CEO or other “C” level positions (CFO, CTO, etc.). Cross pollination is great, especially if you bring in people from industries that bring in practices that are synergistic to real estate. At the same time, it will be interesting to see the first real estate CEO who makes the jump to a high profile role in another industry.

Developing From Within

But more importantly, we should be doing a better job of developing our own leadership. There are many superbly talented people in the next generation in the real estate industry, particularly within REITs. But few have had the opportunity to stray from their line responsibility to learn the breadth of the business. It’s time to take a lesson from companies like GE and move the most promising young leaders through the different disciplines of the business. Give that lead acquisitions person a tour of duty through operations and asset management and they will become more complete leaders, ready to make the transition to CEO or COO at their own or another company. Growth and development, cross fertilization, and best practices developed more and more industry-wide, are all important steps in our maturing industry.

There are also new roles to fill. The dot-com revolution busted, however, the technology evolution moved right into the mainstream of the real estate business. All of our clients are relying more and more on the Internet and intranet communications to increase productivity, efficiency and customer service in their businesses. The most competitive companies are creating a “C” level position (usually titled chief information officer) to play at the intersection of technology, strategy, market knowledge, competitiveness and operations.

With these trends, there will be more opportunities in institutionally oriented companies to build strong careers, make some good money and learn a diverse set of skills over time. And, as always, at the more opportunistic side of the business, there is the opportunity to be more of a traditional real estate entrepreneur and create a new fortune. These trends are positive not only for the owners of real estate, but the service providers, such as brokers, bankers, lawyers and accountants (not to mention recruiters) who are key participants in the industry. Finally, given the relative strength of the real estate industry in the economy, we are once again seeing strong interest from young people (for the first time in a decade) to enter the business, particularly as evidenced by strong applications to enter graduate real estate programs.

As search professionals, we like these trends. We are convinced that, indeed, real estate is becoming an increasingly institutionally oriented business and that high quality leadership will continue to be the differentiating factor for successful real estate companies. REITs have, in many ways, led the way but these changes have become mainstream and provide a strong environment in which the industry can thrive.

(Author Credit: Matt Slepian is an executive recruiter based in the San Francisco Bay area.)