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CCIM president's message: Welcome to spring in N.E.

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Welcome to the spring in New England. I have traded in my car for a catamaran to get to the office, but the mileage is great! But seriously, in this month's message, I have turned to two great publications for my fodder, first our own CCIM "Real Estate Research Corporation" (RERC) and also the 2010 Forbes | Insights survey of small businesses.

The Forbes Insights, in association with CIT, surveyed 220 small business owners and leaders. All companies had revenues from \$1 million and \$5 million, and \$5 million to \$15 million, and operated as for-profit entities. Respondents represented in a broad range of industries including business and professional services, engineering and construction, financial management, real estate, investing or advisory, retail, technology/telecommunications, and others.

The survey cited the key findings as (in no particular order):

*Declining revenues brought on by the 2009 recession have put additional pressure on small business cash flow, forcing many firms to make tough decisions around cutbacks.

*Small business owners are feeling the impact of this economic pressure, working harder and longer than ever before. Still, there could be a payoff: many feel they are now smarter about running their businesses and are better leaders.

*While cautious about the general economy, most small business owners expect their 2010 revenues to grow. But coming out of the recession, they see the world changing and they will have to do business in new ways to succeed in a more competitive marketplace.

*Small business owners know the importance of planning and want to spend more time doing it, but they appear to have trouble putting those intentions into action. Many also seem to be unclear about how to focus their marketing and employee retention efforts.

*Economic stimuli enacted by Washington have had little to no effect on small businesses, but they remain hopeful that recent proposals to raise SBA loan limits will provide some benefit in the coming year.

There were many responses that could prove to be areas of concern for small businesses as we head in to 2010. While most respondents indicated a desire to increase their spending on marketing and advertising, they may be unclear how to target those programs. Asked about the focus of their marketing programs, 48% said they would focus primarily on lead generation, while 42% said they would focus primarily on building/maintaining their brand. Given the stress the recession put on sales pipelines of many small businesses, the lack of overwhelming focus on lead generation could be cause for concern. Another potential problem area could be employee retention. Layoffs, cutbacks to salaries and benefits, and reductions in work hours were all common tactics used by small businesses to keep their cash flow in check in 2009. But small business owners may not be fully aware of what the impact of these measures may be on employee morale and retention. In fact, fully half of the survey respondents disagreed (37%) or strongly disagreed (13%) that they were

concerned about employee morale and whether they would be able to retain their most valuable workers.

So the strategy and tactics that small businesses plan to put into place for 2010 are:

*64% say they will run their businesses more aggressively than they did in 2009;

*46% will pursue new revenue streams;

*50% will invest in growth or expansion

*50% will hold on to their cash; and

*62% will invest more in marketing and advertising.

Surveyed owners and top management believe small businesses will lead the country out of recession. Yet they feel they will achieve these feats in spite of, rather than assisted by, support from the federal government. For example, nine out of ten small business owners agreed that current stimuli do not benefit small businesses. Nearly seven out of ten (68%) disagreed that healthcare reform efforts would benefit their businesses. Still, small business owners remain hopeful that Washington will take action to help them, particularly in the area of financing. Asked about proposals to raise SBA loan limits—a key part of the proposed Small Business Job Creation and Access to Capital Act of 2009—58% agreed that the higher limits would benefit small businesses, while just 18% disagreed.

According to our own RERC/CCIM Investment Trends Quarterly Survey, we may have bottomed out in the first quarter of 2010 (see cart). We seem to have stabilized in most of the CRE markets. That's a good thing! Ratings are based on a scale of 1 to 10, where 1 is poor and 10 is excellent.

In looking ahead, RERC reminds investors that the economic recovery will be a slow process, and high unemployment will be with us for the foreseeable future. Also, the U.S. governmental policy, the federal deficit, and new regulations will cause significant fiscal instability in the economy for the coming decade. And that the U.S. capital markets will remain tight for some time. In addition institutional real estate has already taken many of their lumps, but smaller investors and borrowers present a looming crisis due to the fact that they have not marked to-market their investments and many regional banks are not able to continue to "extend and pretend." Add to this the fact that Cap rate expansion has been priced into commercial real estate prices, but valuations are still catching up. And commercial property sale prices are expected to remain flat or decline slightly, although declining rents could eventually cause further deterioration in prices.

The outlook is certainly better than it was a year ago, but we still have a long road back to the position we were in just five years ago. To help your business accomplish its goal's for 2010, now would be a great time to check out our website, www.NECCIM.com for all the educational and networking options we have planned for this year.

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