



nerej

Current market provides opportunity for new, improved and value added business philosophies

June 30, 2010 - Northern New England

Elsewhere in this journal you have the opportunity to read about US corporations shedding office space. Occupancy is moving from 190 s/f per employee down to a projected 150 s/f per employee. It has been said that in adversity there is opportunity. The longer this recession goes on the more corporate tightening is going to be initiated (and sustained). Today, managers wear at least three hats -- manager, leader, innovator (doing more with less). Today, to advance, managers (and owners) must immigrate (to new technologies), automate (social networking?) or evaporate! We all are seeing more Linked-in, webinars, and Go To Meetings. You are not a leader if no one wants to follow you. But whatever management or leadership style you choose to use, at the end of the day it is all about results. How much cash has been garnered per day, per week, per month?

A recent headline says it well "CRE stabilizing, but recovery is slow". Although the decline in the commercial real estate (CRE) markets and property values have begun to level off, and capital is becoming somewhat more available, there is still tremendous uncertainty about the pace and strength of recovery according to the Real Estate Roundtable's latest quarterly "Sentiment Survey". "Clearly, the sense of gloom that prevailed a year ago has eased. Property values no longer seem to be in a freefall, and market participants are feeling more confident. Some are even saying we may finally be at, or near, the bottom of the commercial real estate downturn, which would mark the beginning of the road back to recovery." ... "Despite these encouraging signs, the sharp devaluation of commercial properties over the past 18 months has left many owners with vastly reduced equity, just as lenders have demanded larger down payments in order to refinance maturing loans. If these commercial real estate borrowers cannot refinance, then default rates on CRE will climb much higher."

The slow recovery of jobs translates to less demand for office and manufacturing space. New technologies promote working from home and virtual meetings, both reducing the need for corporate space. Less demand translates to higher vacancy which is a real problem for an owner needing to refinance. So, with unemployment stalled at 10% $\hat{\pm}$, serious and continuing corporate belt-tightening and new mobile technologies evolving, it is a challenging time to be an owner of office buildings. New commercial development is virtually nonexistent.

According to Marti O'Mara, PhD, CRE at a recent CORENET luncheon "there is no "boom" on the horizon, hence corporations have three drivers for their portfolio strategy -- use less, spend less and need less". This business strategic philosophy is deep and will be long-lived. Only once a steady, sustained recovery is well under way will the office sector be able to rest easy. Prognostications for this are now out to 2014, 15, 16 or 17! Last year, we said "to get to heaven, survive till 11". Alas, as of this writing, much if not all of 2011 is likely to be more of what we've seen in 2010 -- lethargic to mediocre.

So what do we do? A rising tide will float all boats, but if the tide is going to ebb for a long while, then companies need to build or acquire smaller, faster, lighter boats!

Rich Karlgaard, Technologies Publisher of Forbes, says US firms need to pursue seven secrets to survive and prosper:

1. Pursue cutting-edge design.
2. Speed -- 2010 does not function at 1990 speeds. Communications are instant and data is ubiquitous -- processing must be fast!
3. Cost -- it goes without saying, only sharp pencils are needed.
4. Service -- ditto -- cutting-edge or face the consequences.
5. Communications outside.
6. Communications inside.
7. Purpose -- not what you do, but why you do it.

The Great Recession, provides ample opportunity to think about and execute new, improved and value added business philosophies, strategies and tactics to compete in the second decade of the new millennium.

Bill Norton, CRE, FRICS, is president of Norton Asset Management, Inc., Manchester, NH.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540