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Industry wake up call: Small restructure could lighten crisis

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The real estate services business in the U.S. has existed for approximately 130 years. During this time frame, the business has restructured itself 3 times: The great depression of the 1930s; The growth spurt of the 1950s to 1960s in the U.S. and real estate economy; The banking collapse of the 1989-1991 time frame. There is now a need for a 4th restructure; this time brought about by the 2007 to 2009 credit crisis.

This article will concentrate on where we are at present, the problems we face, and present a challenge to those in leadership rolls as to how to correct what I see as a structural problem.

The Problem

The real estate service business is a knowledge based business. As is well known, real estate is cyclical, but few, if any, pundits really study real estate economics and where we are going.

Education in the real estate profession was wiped in 1989-1991 by:

- * The death of Jim Graaskamp.
- * The collapse of the great training ground in this country: Insurance company real estate departments.
- * The watering down of the MAI designation by licensure.

No one picked up the challenge. We have had a 17 year hiatus in education with no long term plan to truly educate future generations. In my mind, educating real estate professionals has slipped to the margin.

Let there be no mistake. No one saw the current credit crunch coming and if they did, the clarion alarm was not raised.

I am a believer that if insurance company training grounds still existed, people of the mold of Claude Ballard, George Peacock, and others would have sounded the call. Most certainly, Jim Graaskamp would have been a leader in this area if still here.

The Challenge

Economics is what drives the real estate industry. To use CB Richard Ellis as an example, CBRE grew through acquisitions and as growth occurred, each year a World Conference would take place. There would be a tight educational agenda with major guest speakers (like Colin Powell and Al Gore).

There would be 3,500 to 5,000 in attendance including a number of clients. Capital market discussions would be led by those responsible for hundreds of billions in equity. With the current credit crisis and the impact on CBRE's income, programs for 2008 and 2009 have been postponed. University and college programs are on a different level. They are not designed to carry beyond the basics of the industry. Further, most professors are not hands on real estate people with day-to-day experience. One of the benefits to those within insurance company real estate departments was the presenting to committees for loan approval and the challenge to perform to the highest level.

One logical source to look for knowledge is trade associations. Associations typically start with great vigor and vision. The problem is that over time as future generations evolve, mission becomes clouded and they forget their primary purpose:

- * To designate qualified members
- * To oversee ethics and standards
- * To educate.

In summary, I believe that someone of stature within a company or organization must step forward with a program on how to side step serious industry problems similar to that we now face and which can occur again in the future. The real estate industry is in need of a single source of contact. The source that rises to the top will become market dominant.

Conclusion

The current credit crisis was brought about by a fundamental error in decision making. While the residential market is most impacted, it is in place on the commercial side with the levels of "mezz debt" on numerous properties. I like to think that a proper training ground in place could have forestalled the mess we are in.

Re-education programs for brokers, lenders, and even hedge fund managers who do attend major national conferences can serve as the training ground. The problem is as to who will create that training ground and how will it be presented. My hope is that among those who read articles like the one presented herein, someone will rise to the fore and create a structure so necessary for those who will follow in the real estate service industry.

Webster Collins, MAI, CRE, FRICS is executive vice president/partner with the valuation and advisory services group of CB Richard Ellis, Boston, Mass.

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