This article is sponsored by the
Society of Industrial and Office Realtors® Foundation.

Promoting and supporting initiatives that educate, expand, and enrich the commercial real estate community for 48 years. Sponsorships made possible by charitable contributions.

The SIOR Foundation is a 501 (c) (3) not-for-profit organization. All Contributions are tax-deductible to the extent of the law.

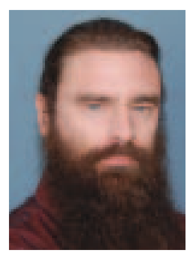
After the Deluge— Will It Be Business as Usual?

Steve Lewis is the President of Wordman Inc., a marketing and public relations firm in Atlanta, Georgia. He served as Editor of the *National Real Estate Investor* for eight years. He was also the Real Estate Editor of *Business Atlanta* and the Editorial Director of the real estate group of publications at Communications Channels Inc., which includes *Southeast Real Estate News, Southwest Real Estate News,* and *Shopping Center World*. His firm represents developers and contractors in the Atlanta area, and he continues to write freelance articles about the real estate industry.

By Steve Lewis

The deep recession and its attendant impact on commercial real estate have caused many SIORs to change the way they do business to make it through the tough times. Will these changes remain in place once things get back to normal? SIORs offer very different takes on the "back to normal" issue and when (if ever) the real estate market will fully recover.

"I don't think anybody knows; I'm not sure the credit markets will come back like they were," says **David Cook, SIOR,** an industrial specialist with Sperry Van Ness in Dallas, Texas. But Cook says, "I don't think the 'end' will start until maybe this time next year. There are just so many loans pushed back and so many extensions given and properties are essentially underwater due to rising vacancies, **lower rental rates,** and **lack of available credit."**



"I think on a broader scale, business as usual will return, but when that will happen is heavily dependent on how you define the end of the correction," says **Gabriel M. Silverstein, SIOR,** President of Angelic Real Estate in Chicago.

"If business as usual is defined as what we were doing during the market peak of the mid 2000s, then the answer is no," asserts **David J. Murphy Jr., SIOR, CCIM, MAI,** Senior Vice President of CB Richard Ellis Industrial Properties in Orlando, Florida. "But I do believe it will be business as usual for brokers who have seen past downturns and who have not forgotten that building strong relationships with the client is still the hallmark of a successful broker. So in some respects, it is even *more* than business as usual; it is going back to the basics in our industry."

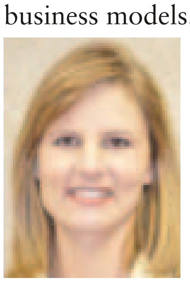
John T. Barker Jr., SIOR, an industrial specialist with Red Rock Developments in Charlotte, North Carolina, gave a "yes…but" response. "I do think it will be business as usual once the market has corrected, but I think we will come back with new metrics and new ways of doing business," he says. "The days of consumer consumption and massive greed will never end; they'll just come back in a new way."

"The days of 'freeway brokerage,' where you jump in front of a speeding deal, are gone," declares **David J. Zimmer, SIOR, FRICS,** of Zimmer Real Estate Services | ONCOR International, Kansas City, Missouri. "Clients expect you to be a full-service provider."

Arlon I. Brown, SIOR, an office specialist with The Parsons Commercial Group in Framingham, Massachusetts, agrees. "I think the brokers who are left standing have to be much more sophisticated, because our clients are," he says.

Some Changes Won't Be Reversed

Some SIORs don't expect things to return to "normal" because their norms have changed and they have made significant changes in their business models.



"In the past three years I have transitioned my business from traditional local brokerage to working with corporate clients on their property portfolios," says **Angela L. West, SIOR,** an office specialist with CB Richard Ellis/Oklahoma in Tulsa, Oklahoma. "I help them execute their real estate strategy by managing transactions in multiple markets across the country."

"The single biggest change we saw as a brokerage and property management company was that, while we were still negotiating many deals, the average term went from four to two years," says Zimmer. "With that comes less in commission revenues; we saw a decrease even though we negotiated just as many leases. We have had to look at our business model. We decided that we need our clients to use more of our service lines than just brokerage." Now, he says, "We define a client as someone who uses two or more of the following services: leasing, construction management, portfolio management, and sales. We have to be better at what we do and provide a wider array of services to our clients because you just can't make it on sheer brokerage anymore."

In addition, Zimmer notes, during the downturn tenants have been able to position themselves for shorter-term leases and more flexibility.

"The fundamental ways we've operated our real estate business over the last 25 years are going to change," he continues. "People learned some lessons this go-around. It will be increasingly difficult for landlords and developers to obtain financing, and they will need pre-leasing."

"There's no question we've had to do our own modeling to be competitive," adds Brown. "We are a full-service company; we own two million square feet through partnerships, do full-service brokerage, and have a full staff for property management led by a professional engineer. The smaller firms are going to have to be able to give the same services as larger firms and provide tenants with the same types of services."

Such firms, he continues, will have to do more with branding, touting their key differentiators. "You really have to sit down and have a game plan, a strategy," says Brown. "You've got to make warm calls to people of influence, such as lawyers and CPAs. It's a very different environment, and I really don't think it will all change back."

"When the wave curled, we said we had to work on our geography, which was already part of our [long-range] business plan," recalls Barker, who says his firm expanded into cities like Memphis, Nashville, Birmingham, Louisville, and Richmond. "We will absolutely keep this wide geography when things get better."

"We've tried to trim the fat out of our budget, and we've done a pretty good job," **J. D. Salazar, SIOR,** Champion Realty Advisors, Willowbrook, Illinois says. "We terminated some brokers who were marginal producers. But the one real critical change we made that will probably not alter in the future has been to shift our focus from 50/50 tenant/landlord representation to much closer to a 75 to 80 percent tenant rep strategy."

In addition, he says, he has increased his PR and advertising budget. "We continue to sponsor a full page in this magazine, and we've not dropped any membership in key organizations or networks," says Salazar. "We're revamping our Web site to bring it up to date, and we've also gone to video."

This strategy, he insists, will not change in the future. "Marketing is an absolute necessity," he asserts.

There will, however, be one change made when things start to look up. "We do look to staff up once the market starts improving," says Salazar.

"The basic tenets of being a successful salesperson have not changed," Murphy says. "Prospecting, listening to the client, and taking your skills and your understanding of your client's needs and converting them into a successful resolution to the client's requirement is always permanent.

"The days of 'freeway brokerage,' where you jump in front of a speeding deal, are gone."

— David J. Zimmer, SIOR, FRICS

The only permanent changes should be the riddance of bad habits that creep in when the market makes you think you are better than you are."

When Will It All End?

SIORs are of different minds about when the downturn will end and when things will even have a chance to return to normal.

"I think the deluge has ended in the investment market," Silverstein says. "The question is, when will the flood waters dry up and the debris be cleaned up? " Once the larger assets start moving with greater volume we can establish market price transparency again."

Silverstein foresees a return to "normal" when it comes to financing. "The smaller-deal trend is still the most active part of the market and will remain so going forward the next 12 months," he says, "but we're just now starting to see a shift where more deals in excess of $10 million are starting to work their way into the market. We're finally getting back to more of a balance."

In addition, Silverstein says, "In about three years, the system will have worked out enough of the loans that needed to be sold so that loans expiring at that time will have a realistic chance to refinance or sell and recover 100 percent of the loans."

"We are already beginning to see an increase both in activity and in the willingness of decision makers to commit to longer range planning," Murphy says.

But Cook says, "I don't think the 'end' will start until maybe this time next year. There are just so many loans pushed back and so many extensions given and properties are essentially underwater due to rising vacancies, rent rates, and low credit."

"We're about a year behind the West Coast, and they're not coming back yet," says Charlotte-based Barker. "You can't manufacture demand. You need the fundamentals. Job growth and liquidity in the market are tied directly to that demand for personal and commercial consumption. I still see a lack of that on a banking basis."

"I think as a company we're looking for a pickup in the third quarter of 2010," says Zimmer. "There's still little if any white collar job growth, and managers are still cautious about prospects for the future, but a lot of companies are operating profitably. They've done it through extensive cost-cutting measures, and now they have to convert it to top-line (revenue) growth."

"I think it will be 36 months," says Brown. A lot will depend on how the federal government looks at the whole commercial mortgage issue—whether to put the screws to bankers and make them start writing down loans and marking them to market or floating out there." What's more, he warns, it may get worse before it gets better. "There are a lot of loans coming due in the next couple of years that were taken out in 2005, 2006, 2007, and 2008," he notes.

Salazar is even less sanguine. "I don't think things will get better until we see some job growth, and I do not think that will happen until maybe 2011," he says. "We'll be at the level we are now—at best—for the next 18 months. But for things to be at the levels we saw in 2006 or 2007? They may not come back for 10 years."