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## **Notes from the Field: Getting Real About Real Estate**

*By Jim Young*

For years, the financial markets thrived on the concepts that “greed is good,” “the music will play forever,” and “sophisticated investment techniques” were the way of the future. Unfortunately (or fortunately, depending on your perspective), this approach was destined to fail in the long-term. The fundamentals of running a business are simple: provide products or services that people need or want, create legitimate value, motivate and manage a well-balanced team, and control expenses.

Amid the financial crisis of the 1970s, innovative entrepreneurs launched what are now such technology giants as Microsoft, Apple, Oracle, and SAS Institute. During the same time period, in spite of a 45% drop in stock prices, we witnessed the birth of Southwest Airlines and FedEx. Let’s not forget the pioneers who began working on “inventing” the Internet; and, more recently, companies such as, Google, MySpace, and eBay that rose from the dust of the “dot com” bubble.

Now let’s examine some of the problems that plagued us in 2008, and see how we can turn these challenges into opportunities in 2009. The financial meltdown touched a broad range of financial venues. Here’s a sample of what went wrong:

- Overselling of inappropriate mortgages and the subsequent consumer buying spree that ensued.
- Packaging and re-selling of risky sub-prime and other creative loans.
- Misleading, arrogant, and, sometimes, fraudulent behavior by executives, politicians, and business leaders.
- Historic decline of the major stock indices.
- Dramatic shift in energy prices due to hyper-speculation.
- Decreased rate of personal savings and increased personal debt.
- Abrupt loss of consumer confidence.
- Lack of investment in fundamentals such as education, research and development, and innovation.

At Realcomm’s upcoming annual conference (in Chicago, June 23-24), the theme is appropriately: “[REboot 2009: Turning Challenges into Opportunities](#).” With the current sluggish economy and frozen credit markets, companies will need months (if not years) to “refresh,” and business plans might be more difficult to carry out. In the context of commercial real estate businesses, REboot means that we have to re-think and, in some cases, re-structure the way we operate our businesses.

Some would argue that we need a whole new operating system and not just a simple reboot [Editor's Note: see "[Compass: Someone Hit the Reset Button – Please!](#)" from this newsletter, October 2007, for more on that perspective].

Unfortunately, that is really not an option at this point. We have to start with what we have, find out what is working, and put a strategy in place that incorporates short, mid- and long-term plans. In the short term, we need to use what we have and exploit it to the greatest extent possible. In the mid-term, we need to look for innovative strategies that will provide **real** payback in 12-18 months. And lastly, we need to embrace technology changes now that will help add long-term value to the company by increasing top-line revenue.

***If we get back to the basics and build strong companies based on proven fundamental business principles, we can turn these unprecedented challenges into extraordinary opportunities.***

Overcoming the current challenges will require longer hours, more critical thinking, spirited debate, calculated risk-taking, unprecedented collaboration and cooperation, and a culture of "perpetual innovative thinking." Innovation is not something that should happen "once in a while"— we need it to be an integral and ongoing component of a business's culture.

How does this all apply to commercial and corporate real estate? While relatively absent from the horrific headlines of 2008, real estate is far from being "out of the woods." A slowdown in consumer spending will impact both retail and industrial portfolios, while a general economic slowdown will impact everything from office buildings, to malls, to multi-family residential properties. In addition to lease defaults and foreclosures, the lack of access to financing only exacerbates the pain.

The real estate technology industry needs to do our part. We can use technology as it has been used throughout history. From the invention of the wheel, which changed the course of transportation, or the PC, which provided mainframe computing power to millions of people, technology has always played a significant, **strategic** role in business progress. So, despite how ominous it might look on the surface, times of crisis tend to breed discovery and innovation.

The commercial and corporate real estate industry can turn challenges into opportunities in 2009 by focusing on the following critical points about information technology:

- Technology has always been and continues to be an integral part of progress.
- When used strategically by executives, technology creates a strong foundation for a company.
- As an enabler, technology is fundamental for innovation and good ideas.
- Technology is the tool that will enable the re-engineering of business processes and better systems.

Now, more than ever, we all have the opportunity to strengthen the strategic position of IT within commercial and corporate real estate firms and to elevate its strategic

relevance among executive leadership. The real source of growth is creativity and innovation.

I hope you will join us at Realcomm 2009 on June 23 and 24, 2009, at the Hyatt Regency in Chicago as we REboot to explore how we can turn challenges into opportunities.

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