PROFILES IN REAL ESTATE

BY
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PROFILE – OF CHANGE

Ever since the outbreak of Covid-19, life has changed in big and small ways. Some of the changes — like toilet paper shortages and social distancing — were temporary. Other shifts have had more staying power – like welcome to Zoom meetings and working remotely, working for ourselves, increased drive thru restaurant traffic. Some new trends are just beginning to emerge. We all just want to do better, be better, be healthier and enjoy life more.

Over the last three years I interviewed a variety of business leaders in real estate investing, title, restaurant, advertising, banking, brokerage, power engineering, journalism, coaching and law industries. They all shared about how their business handled and adapted to a pandemic and post-pandemic world.

Some, like Mike Watson, Managing Director of MMG Real Estate Advisors decided to start his own brokerage: "I really wanted to do my own thing. As we came into Covid and things were slowing down, it become evident this is a perfect time to take advantage of a slowdown in the market and create our new company as we had more time away from transactions and able to set up. The basics of our industry have not changed."

Almost all businesses were forced to adjust their practices for employees and to keep employee morale high. Jeff Weller, co-owner of Lion Real Estate Group shared how "early on we decided to give some financial incentives even with the company not doing well financially - or as well as it has done - to make sure that everyone knew that we appreciated them, so we gave out gift cards on a regular basis. I think because we were empathetic to the people working at the properties, they were able to carry that forward to the tenants."

When a man of 60 marries a girl of 21, it's like buying a book for someone else to read.

Zoom and Google meetings became the norm and today they are used as a more common way to hold business updates, meetings, and trainings. Humberto Vega, Controller at Power Engineering Services, talked about how their field technicians had to adapt to regulations and technology. "One of our biggest challenges was communication and being able to have our employees all on the same page while being spread out. Before Covid most of our meetings and communication were in person. We had to not only switch to Zoom or Google meetings, but we had to work with our technicians having different technology available and train them how to use their devices to join team meetings and communicate."

For James Rosenblatt, president of his own law firm, "Zoom courtrooms were not only non-existent prior to Covid, they were considered unconstitutional. Today, in-person hearings are the exception to the rule. Hearings, depositions, discovery disputes, and even trials are no longer controlled by the location of witnesses, parties, or litigators. The result is a much more efficient system for attorneys which should result in cost savings for clients."

But how did business and customer service change? Amy House, founder and owner of Growing Out Loud Darlin, a coaching, consulting, and marketing company explained it very well. "I have always said that when people are retreating it is an opportunity to push forward. When you see people play defense rather than offense, there is an opportunity for your business to gain market share and do it strategically. The clients that worked with us during Covid grew 20 to 40%. Why? Because other people in their businesses pulled back, and our clients showed up in a big way. They had parking lot parties with social distancing, meetings at picnic benches with people bringing their own lunch. Salespeople met clients in their parking lots. When other companies were stuck and went silent, we had clients showcase their team and how their team was still servicing customers working from home, with their children doing homework at the dining room table. The message was simple, 'We're still here for you, and we are people just like you—dealing with the same obstacles and we are here to help.' We simply changed the marketing message. And people engaged."

In the commercial real estate world, multi family has overall done much better than office and retail over the last three years. Doug Martine and Billy Johnson of GAN Group, a real estate development and acquisition company, were in contract and in the process of starting a minimum of three Alamo Draft Houses in 2020 and 2021. "In a blink of an eye it all went away because of Covid. We had invested a lot of our time and money in these projects and these projects were to provide the overhead for our business. It all went away. We had to adjust and relied on our architecture and development consulting connections for projects to pay the bills. We also worked on senior living and multifamily acquisitions. We had a group of investors that we acquired some multifamily projects as well."

Today, "the market for cash and well capitalized buyers is gaining traction as over leverage deals are emerging. There is a lot of demand for financial loan packages, and business plan analyses. We see headwinds ahead in the credit market making access to credit facilities challenging. This will impact how a client stacks capital to make a deal.", according to Reggie Johnson of REMA Global, a real estate development company.

The Fed raised interest rates 11 consecutive times with rates rising at the fastest pace in decades. It has taking investors time to adjust. Many commercial real estate owners still pay rates lower than current levels, so refinancing activity has slowed. Delinquencies and vacancies have increased in the multifamily sector for certain class type properties, yet new construction remains at full speed. It's unclear if rates will continue to rise or if the Fed will change course in the second half of the year. This leaves investors with a familiar feeling: uncertainty for commercial real estate through the rest of 2023.

In my own commercial real estate brokerage and property management business, we have seen changes in investors, tenants, staff, and our own family expectations. Everyone has higher expectations and expects to put less into it. Investors that were looking for 15-20% returns and getting 3-4% interest rates on their loans must adjust expectations at 10% returns and 7-8% interest rates. Tenants that were allowed to go months without paying rent are receiving 3-day notices again and are being evicted sooner. The challenge with that is that tenants have gotten used to moving more often and have no problem having a bad credit and rental history, which will become a growing challenge as owners look to upgrade their screening criteria and resident profile. Good dedicated and hardworking staff is harder to come by and many in the workforce choose to change jobs more frequently for better pay or choose unemployment instead of going back to work. Finally, in our own families, we want to spend more time with each other, travel and enjoy life instead of being focused on work and business only. We have made efforts to adjust our spending on travels and adventures versus "stuff" and "things". We make better health focused decisions and have disciplined ourselves to put family first and enjoy more time together.

Perhaps, Mark Twain said it best, "Twenty years from now you will be more disappointed by the things you didn't do than by the ones you did. So, throw off the bowlines, sail away from the safe harbor. Catch the trade winds in your sails. Explore. Dream."

Ed. Beginning with our next issue, Roxana Tofan takes on a new regular feature: 6Q— Who? What? Why? When? Where? and How? ■

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