

MUCH HAS BEEN WRITTEN ABOUT THE CHALLENGES FACING THE INDUSTRY IN THESE TOUGH ECONOMIC TIMES, BUT ARE THERE ADVANTAGES TO OPERATING IN A MARKET DOWNTURN? MICHELLE HUTCHISON REPORTS.



The upside to down markets

During the 2008-09 financial year Australia's property industry has been faced with a sluggish economy, reduced construction activity, fewer transactions and the re-emergence of a sub-lease market. However, these challenges have given property companies the opportunity to refocus and restructure their business in preparation for the inevitable upturn in the cycle.

But can businesses prosper, or at least find opportunities, in a downturn?

Stephen Conry, chief executive officer – Australia at Jones Lang LaSalle (JLL),

believes there are clear advantages to operating in a down market.

“Difficult markets and challenging times do provide opportunities,” says Conry. “There is a demand for high quality services and we are ... doing more business with some clients because they need more quality advice.”

Conry says client loyalty is the key to sustaining business during tough conditions.

“There’s no doubt that client loyalty is a big part of success in any business and in tough times your loyal clients, which you’ve

KEY POINTS

- Downturns are a prime time to refresh the business model, reduce inefficiency, review staffing, re-examine processes and renew the structure of a business
- Smart operators use a downturn to seek out alternative income sources, and retain them through the upswing



TAKING ADVANTAGE OF A DOWNTURN

- Review your business model – ensure you are adapting to the market's needs
- Analyse processes for greater efficiency – renegotiate supplier contracts, conduct financial audits and chase invoices
- Review your workforce and leadership team
- Ensure you provide the highest quality of services or products possible
- Review debts and try to minimise them
- Seek new business opportunities in other areas or sectors
- Maintain dynamism and optimism about moving forward or you will create a gloomy place to work

built a relationship with over many years, will stick with you and also will often seek more assistance from you.”

But you can't simply rely on loyalty when the market is down, according to Conry. Cost-cutting measures need to be applied including redundancies, leaner expenses and slashing investment in new business opportunities.

“Our revenue will be down a little more than we expected and profits will be down somewhat, but our percentage margins are holding up satisfactorily because of the cost-saving measures that we've implemented and the fact that we do run a tight ship,” says Conry.

Where's the growth?

Global real estate services firm CB Richard Ellis (CBRE) has also bolstered several service lines during the current downturn including its insolvency division, which has sold 23 properties for a total of more than \$100 million during the first six months of 2009. The team of 50 across Australia and New Zealand currently has 40 properties under instruction, worth about A\$400 million.

Other areas of growth for the group are property management, global corporate services and valuation.

“What we've been looking at is market share opportunities and growing that market share through diversification,” says Tom Southern, chief executive officer – Australia and New Zealand at CBRE.

Southern, who has worked for CBRE since 1987 and has experienced four downturns in his career, says the right preparation during a downturn will lead to a better-positioned business and increase the gap between competitors.

“I'd be naive if I didn't say that a lot of people would love to see a situation where the cycle's upswing and growth went on without interruptions. Apart from the fact that it's totally unrealistic, this type of downturn does give you an opportunity to prune and rework your business and really put it in a shape that will enable it to move forward and emerge even stronger,” says Southern.

The government stimulus packages are another source of new business for property and construction companies. For example, CBRE has been awarded one of its biggest contracts by the NSW Department of Housing under the Federal Government's Nation Building and Jobs Program, which aims to deliver 6500 new dwellings by

2010. CBRE was engaged for two major streams of work – acquisition and advisory services/valuations.

“We set up a government team as a long-term strategy because government will increasingly be dealing with assets and we can look at ways in which to make better use of them,” says Southern.

Tony Ryan, principal at Ryan Lawyers and Ryan Capital Advisors, says that downturns provide opportunities to tighten up business processes.

“In the service sector, it's about how you're controlling your work-in-progress, your debtors, your turnaround time, getting your bills out and being paid on time,” says Ryan. “All those things that we didn't worry about too much created enormous inefficiencies in terms of capital management.”

The people factor

After auditing cost legacy and waste, Ryan says personnel is the next step in the business review process.

“Often at times people were employed that weren't really ideal for the position. But in an environment when it's all hands on deck, you tend to not worry so much about scrutinising those decisions or those performances as you just need people in the seats,” he says.

“I think there's an opportunity to revisit all of that, which is not necessarily hostile...”

Ryan says staff are the most important part of his business. “What I can't do is lose highly qualified people that have got strong relationships with their clients and who [have] 20 or 30 years experience. That's my most valuable asset and I would do everything I can to preserve that.”

As for opportunities, according to Federal Government statistics, personal insolvency activity increased by 18.25 percent over the 12 months to March 2009, compared to the preceding 12 months, so it is no surprise that insolvency work has increased for companies such as Ryan's.

The downturn has also led companies to focus on professional development according to Matthew Hardy, director at Conari Partners, which specialises in property industry recruitment.

“It's an opportunity for companies to restructure the skill sets they have, because the focus of their work would have changed. It is more about optimising the value of the assets they have.”

Recruitment companies have had

to change their focus to adapt to the market, according to Hardy. "We have to identify those clients that are going to be hiring, which has changed to consultancy businesses and away from traditional REIT businesses. And we have shifted our focus from permanent to contract work."

Business is expected to flow from the end of the downturn for Hardy, who says when the market does turn upwards staff begin to have "itchy feet".

"People have been dissatisfied for the last year or so and businesses have been turning to the likes of us to talk about how they can maintain their key staff," says Hardy.

Rita Avdiev, managing director of specialist human resources and consultancy company the Avdiev Group, agrees that now is a good time to be in business.

"It sorts out the competition. If you are incompetent you won't survive and those that are competent will survive. Staff

become more available and remuneration is looking like it could be not so much on the downturn, but definitely on a plateau."

Avdiev says the downturn brings higher competition for jobs as unemployment is on the rise, growing to 5.7 percent in May 2009.

"Since mid-May more people have lost their jobs and companies are into their third round of retrenchments or redundancies. That is going to impact the industry as there are more people on the market, and the people who are without jobs will negotiate or work for less money, depending on how desperate they are to get a job," she says.

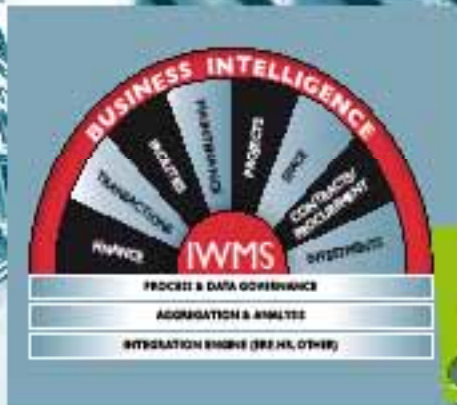
Middle level positions have been most favourable during the downturn, according to Avdiev, with property management, shopping centre management and corporate real estate receiving modest remuneration rises.

"The predictions were consultancy wouldn't get any pay rises, there was

"In the service sector, it's about how you're controlling your work-in-progress, your debtors, your turnaround time, getting your bills out and being paid on time."

Tony Ryan

some talk about pay cuts in the big organisations, where the senior executives aren't going to get any increases. And with the government's changes to short-term incentives shares, that's become quite a difficult issue, so who knows what kind of short-term incentives we're going to have in the future..." says Avdiev. ☺



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