REmatrix Interview with Forbes J. Rutherford, President of Rutherford International Executive Search Group Inc.

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Topic: Recessionary Jitters – A Commentary

Forbes Rutherford provides specialized human capital consulting and executive search services to both national and international property and investment firms. He has practiced his profession for twenty-two years; and has sat on the Board of a number of professional real estate associations based in Canada. Having dealt with a broad cross section of the industry's senior executives and rising stars, Mr. Rutherford is in a unique position to observe the changing macro trends and oncoming challenges facing the Canadian and International real estate community. Additional information on Mr. Rutherford's background may be viewed at the following web links: www.rutherfordinternational.com or http://www.linkedin.com/in/rutherfordintl

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You wrote last January that an unstable sub-prime and derivative market would precipitate a market correction of major proportions. What would you advise your clients, now that the correction has arrived?

Forbes Rutherford
What we're experiencing is a deleveraging of a financial industry that was built on fatuous property values, easy credit, gravy train group think and financial architecture that leveraged gullibility with guile. If consumer confidence and the real economy can be insulated from the fallout then this deleveraging will simply purge the system of phantom wealth – think of it as a financial colonic reboot.

There are always opportunities for those that have the creativity to see it – we have entered a chaotic phase in the business cycle, however in "chaotic systems" one can find, albeit ever so briefly substantive patterns – in real estate as in any business, there are opportunities to be found within chaotic economies.

Getting back to your question, my advice to clients would be to not overreact. If continuous cost management was not part of their corporate culture during the good times then now is a good time to embrace it but not in a wholesale fashion that undermines the company's ability to have momentum when the market rebounds. *"Layoffs in force"* without determination of who to shed based on performance criteria has been proven to retard a company's ability to take advantage of the eventual recovery relative to your competition. In fact, nimble companies should use this time to improve the quality of their management teams. It's easy for mediocrity to lay hidden when all the boats are lifting with the tide – not so when market position and margins are eroding.

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What would you advise job seeking clients?

Forbes Rutherford

It's probably best that we clarify who my client is. The simple description of a client is "one, who pays my fee," which in all search assignments is the hiring company. I do provide career counseling and some degree of executive coaching, however the majority of my practice is "*creating wealth for clients by matching talent and ideas with capital*." Over the next eighteen to twenty-four months a portion of my practice mantra will be, "*we help clients preserve capital by matching them with adaptive and agile talent."*

As for individuals, it's likely the standard response to the greeting, "How are you?" will be a credulous – "I have a job, how about you?" All kidding aside, regardless of economic condition, quality employees will leave for greener more challenging pastures. The mediocre will leave in good times if they think they've played out their hand and the jig is up; whereas in tough times, they'll generally sit tight, keep their head down and not entertain any form of change. The mediocre employee rarely makes an effort to manage their career – for them change is merely the outcome of happenstance.

My counsel to those concerned about their job security is to first understand that this correction is a metaphorical fiscal neutron bomb. The explosion has wiped away real and perceived investment values but left the physical assets standing. Ownership positions meltdown but assets remain and require management; tenants' contract and shift to lower cost facilities but need modern amenities; vacancy needs to be filled – asset value erosion mitigated. You can choose to become collateral damage or be part of a creative response.

If like me, you see opportunity in unsettled times – you need to elevate your game, stay informed, widen your network; and most importantly, you learn to recognize business opportunities,

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What type of real estate companies should job seekers consider?

Forbes Rutherford
Resilient businesses cultures and agile management will always succeed, however it depends on one's capacity to assume risk.

If you tend to be conservative and adverse to risk - it makes sense to me that you consider companies with a strong balance sheet and a tenant mix within its portfolio that is relatively insulated from the angst of the American and Canadian consumer.

You should seek property owners and managers with portfolios that are well located and occupied by commercial and retail tenants that have solid, ongoing businesses and are well situated within commercial, retail and transportation nodes.

Rutherford International supports a number of off-shore clients. Real estate is local however the investment in commercial and infrastructure assets is international – employers with good global diversification offer greater peace of mind to those seeking secure work environments.

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What can municipal/regional governments do to stimulate the real estate industry?

Forbes Rutherford
Don't expect business or property tax relief; however "rust never sleeps." Government is likely to play an active role in stimulating the economy through a variety of infrastructure projects. The unfunded liabilities associated with deteriorating infrastructure are mounting on a constant basis. Recessions are the best times for government to cost effectively renew its infrastructure; assuming they don't hobble the private sector suppliers by restricting bids to firms with unionized labour or insisting on wage equivalency.

Urban populations would be surprised if they knew the number of municipal and regional governments run by political ideologues' that are bound to hit the financial wall over the next 24 months. Local government's capacity to tax is exhausted; an eroding tax base and a demographic squeeze on labour supply will all but force reluctant "left leaning" municipal leaders to embrace "Public Private Partnerships" or some new palatable definition as a means of delivering infrastructure renewal and cost efficient municipal services.

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You began real estate executive search with Hyman Mackenzie & Partners in 1986 and then started Rutherford International in 1990 – the beginning of a deep real estate recession. Are there any commonalities that you've noticed with this anticipated recession relative to your experience in 1990?

Forbes Rutherford
The bursting of the United State's housing credit bubble, is the result of pumping an industry with super-easy financing and profligate lending, which is reminiscent of the commercial real estate meltdown in the early 90's.

We believed then that an underlying driver of the 1990 debacle was "personal performance compensation" run amok; and we believe a contributing driver for the sub-prime debacle today is rapacious personal enrichment without appropriate safe guards.

American mortgage lenders have exercised the same undisciplined penchant for writing 'no' or 'little' documentation mortgage loans in the residential industry as they did in previous decades with commercial lending. The Europeans are as guilty but somehow they've managed to deflect culpability even when Irish housing subdivisions are being mothballed at the same alarming rate.

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What's different this time?

Forbes Rutherford
A great deal, the importance of tenant retention, concentration of ownership, the number of public companies in singular product categories, geographical diversification of portfolios, collaborative business models and speed of communications, the role of sovereignty and pension funds, private equity pools with varying risk thresholds, globally integrated property services, the diminution of the developer in deference to the financier are but a few factors that come to mind. The elephant in the room however is the impact of demographics and generational transference of knowledge.

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Why would demographics rate such high consideration?

Forbes Rutherford
If you think in terms of David Foot's thesis in "Boom Bust Echo" the Baby Boom generation was roughly ages 29 to 42 at the beginning of the 1990 real estate recession. It was more of a depression then a recession which lasted until 1995 - meaning the Boomers were approximately 34 to 47 at the depression's end.

The age of the Bust portion of Foot's thesis was approximately 21 to 26 in 1990 and were the most likely to suffer from wholesale purging of staff as was the tail end of the Boomer generation. This age group would be characterized as the lost generation as firms were managing in austere times and generally not willing to mentor or support staff development programs. The industry wasn't an attractive place to build a career at this time – the quality of human capital within this age group is a bit diffused.

The Echo generation, children of the Boomers are approximately 17 to 38, the younger section of this generation are likely to pursue other careers much like their Bust counterparts. The front-end of the Echo would do well to listen to their Boomer relatives; specifically the relatives that successfully limped through the last real estate recession. There are lessons to be learned, mistakes to be avoided.

The Boomers are approximately 47 to 60; the memory of 1990 – 95 depression is imprinted at a genetic level. It is this age group that will be making the majority of real estate and organizational decisions. Whether they react to market contraction by resorting to old paradigms or employing more creative solutions remains to be seen and experienced.

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What differentiates one company over another in terms of successfully navigating a contracting market (if not industry)?

Forbes Rutherford
That's much too broad a question to relegate to a single answer. Let's reserve that to a separate interview; but suffice to say my comments will be centered around the importance of individual and corporate resiliency, agility, clarity of performance measures, compensation, stakeholder communication, cost management; and most importantly – focused, collaborative and creative leadership.