

Acquisitions, property management help large real estate brokerages stay afloat

By **THOR KAMBAN BIBERMAN**, The Daily Transcript

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Local offices of the big commercial brokerage firms are affected by the recession, but property management and corporate tenant work is softening the blow.

"We are managing our headcount through attrition," said Mark Read, **CB Richard Ellis** (NYSE: CBG) senior managing director.

Read, who estimated that the San Diego area offices have about 90 brokers, said the local CBRE offices have only seen about a 10 percent drop from its staffing peak of two to three years ago.

"Thank goodness for us, we have a big property management group," Read said.

Read said CBRE has some 16 million square feet of third party office, industrial and retail space it manages in San Diego and southwest Riverside County, and a substantial apartment management portfolio.

"A lot of owners who used to manage these properties themselves are outsourcing, and we're taking advantage of that," Read said. "We're providing multiple services to corporate tenants across the country and around the world."

CBRE, Read said, has also been helped a great deal by doing a great deal of corporate work for tenants.

He said CBRE's acquisition of **Trammell Crow Co.** about two years ago really helped the tenant side of the business.

Read said his firm managed to increase its national market share from 16.1 to 17.9 percent (according to **Real Capital Analytics**) at a time when combined office, industrial and retail transactions dropped by 80 percent across the country when comparing 2008 with 2007.

As a result of this decline, CBRE internationally decided to reduce its annual expenses by some \$385 million last year -- accomplished by everything from cutting staffing at the corporate offices to savings on energy throughout the divisions.

Los Angeles-based CBRE (NYSE: CBG) still took a huge hit on its bottom line in 2008, but did manage to remain comfortably profitable. The firm posted \$83.92 million in net income on \$5.13 billion in revenues for the year ended Dec. 31.

That was compared with \$390.5 million in net income on \$6.03 billion in revenues for 2007.

Stockholders haven't been particularly upbeat. During the past 52 weeks, the company stock has ranged from a high of \$24.50 to a low of \$2.38 and has been trading near the bottom of that span in recent days.

Read can't deny that he has felt the impacts of shrinking employment -- he expects about 25,000 jobs will be lost in the county this year. That means fewer deals for his brokers.

"There are too many dogs at the food dish ..." he quipped. "It's going to be a very difficult leasing year in particular."

While Read expects the leasing market will bottom out in 2009, he said it will likely be late 2010 or early 2011 before a recovery is felt.

Read expects more brokerage firm consolidations in the coming months such as **Cushman & Wakefield's** acquisition of **Burnham Real Estate Services** within the past 18 months, and more recently, **Jones Lang LaSalle's** (NYSE: JLL) purchase of **The Staubach Co.** of last year.

Bill Fleck, Jones Lang LaSalle managing director, who is in the process of moving into new offices at La Jolla Commons in the University Towne Centre area, said he has actually hired three new brokers in recent weeks to what is about a 25-broker office, plus several more in the capital markets section.

"The tenant rep side of the business is really growing. This is a great time for that side of the business. We've been doing a lot of lease restructures ... creditworthy tenants with less than three years on their lease who have been paying above market-rate rents are in a very strong position," Fleck said. "Landlords want to maintain occupancy at almost any cost."

Fleck said the most difficult thing about a market such as this is working on a transaction for many months, only to have a corporate board kill it at the last minute.

"And we're seeing a lot of moratoriums on the leasing of space," Fleck said.

Chicago-based Jones Lang LaSalle (NYSE: JLL) posted \$84.9 million in net income on \$2.69 billion in revenues in 2008. That was compared to \$257.8 million of net income on \$2.65 billion in revenues in 2007. Jones Lang LaSalle's stock, like that of CBRE, has taken a big hit in the recession.

It has ranged from \$90.83 to 18.12 in the between March of last year and Tuesday, and has been trading near the bottom of that range.

The San Diego offices of Cushman & Wakefield has lost a few brokers through attrition to other firms, but Stath Karras, Cushman & Wakefield managing director, declined to elaborate for competitive reasons.

Karras said while this market may be frightening for younger brokers in particular, San Diego's diverse economy will stand it in good stead for a strong recovery for those able to tough it out.

Jon Frager, **Grubb & Ellis|BRE Commercial** CEO, said his firm, though carrying the Grubb & Ellis banner, has the advantage of being a San Diego company that is independently owned and operated.

While it has about 100 brokers here, it doesn't have the huge overhead that other national or international firms might. That has helped to keep it profitable, Frager said.



"We are well capitalized and we don't have any debt," he said. Frager, who said he has had some "natural attrition" and has instituted salary caps, salaries, said 2008 actually proved to be a surprisingly strong year.

Grubb & Ellis|BRE appears to be faring much better than its big affiliate, **Grubb & Ellis** (NYSE: GBE) corporate in Chicago.

In the third quarter G&E posted a \$44 million loss of \$159.23 million in revenues. This was compared with \$4.28 million in net income on \$49.7 million in revenues for the like quarter a year earlier.

G&E's stock, which is in danger of de-listing, traded from a high of \$7.50 to just 25 cents. It also has been near the bottom of its range.

The Transcript also made repeated calls to executives at **Colliers International**, but those were not returned in time for this story.