

Built to Last: Creating Business Resilience Means a Strong Strategy Through Uncertainty



The past months have brought a lot of uncertainty for both businesses and private investors. Along with a flurry of worrying economic predictions, most industries are still struggling with supply chain issues and shifting commodity prices.

For Commercial Real Estate (CRE), the situation is just as uncertain. There have been several shifts in the market to contend with, including indications that sectors that have been booming up till this point might finally be slowing down.

In this environment, making smart business decisions and positioning a company, or brokerage, to move forward can seem daunting. And yet, it's exactly these situations where businesses have the opportunity to build the resilience that will see them go from strength to strength through the next cycle.

Stepping Up to the Challenge

A recent report from McKinsey sums this idea up perfectly: "A turn in the cycle is a moment that requires true leadership to embark on either offense or defense. But the best-performing companies don't wait for that turn to reveal itself—or not: they act with intentionality and courage in the face of profound uncertainty about the macroeconomy."

Which is to say that this is a time when companies should be re-examining their strategy, with an eye to figuring out what new opportunities may be presenting themselves. The article also points out that there are a range of possible outcomes to prepare for and acting strategically means keeping all of these outcomes in mind.

Resilience in this case means having a business plan in place that can tackle the worst-case scenario of a protracted recession while optimizing for the best-case.

Performance and Risk

During past economic downturns, CRE markets have often been hit hard, but it's worth noting at this point that things looked somewhat different through 2020. A recent report from the Office of Financial Research (OFR) shows that CRE exhibited strong resilience over the period, despite specific asset classes struggling.

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OFR does, however, highlight specific risks that may pose a stronger threat in the upcoming period. Among these are:

- A “sustained rise in inflation which could pressure CRE sectors subject to rapidly rising operating costs”,
- The possibility of investors: “requiring a higher return to hold CRE”,
- “negative economic growth” and,
- Lastly: “a change in lessee preferences that could increase CRE vacancy rates”, In other words, a drop off in certain sectors like office as hybrid modes of work become increasingly popular.

In the context of these risks, it makes sense for CRE professionals to take a pause to reevaluate the strategies we’re currently relying on. And while we can certainly lean on some of the advantages built into our industry, like the fact that property is considered a hedge against inflation, it’s also worth developing a broader strategic approach to these challenges. In short, we should be asking ourselves: Can we be better prepared for what’s coming?

Covering the Right Bases

In their report, McKinsey notes several ways that businesses improved their resilience and ability to adapt to changing conditions during Covid. One of the most important things they found was that the companies that thrived were those which “invested more time than others in clarifying their goals and setting business strategy.”

A lot of the more successful businesses also dedicated more time and money to new ventures and markets, risk analysis, and “digital resilience”, i.e., adapting to the demands of working online and embracing new tech to enhance their operations.

For us in CRE, that last point in particular stands out as something to work on. While our business will always rely on having a broker’s eye for developing trends there is also an ever-increasing range of tech tools available, yet the CRE industry is often slow to adopt them. Leveraging true business intelligence capabilities, for example, can add massive value as we step into an environment of increasing risk and uncertainty.

Strengthening Principles

The strategies and tools that are relevant in each context will, of course, be as varied as the environments that CRE professionals work in. What’s true across the board is that building resilience requires both flexibility and forward-thinking. Those traits, along with a smart approach to risk, are likely to contribute the most to success as we move forward into yet more uncharted waters.