

Perception becomes reality: This real estate cycle is different

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No matter where I am during these holiday times filled with business and personal gatherings, the topic turns to the state of the real estate market. Most people have only a limited base of knowledge on the topic because it's not their primary area of expertise and as a result, when they hear and read stories about real estate, they combine commercial real estate and residential real estate into the same bucket and assume it's all doing poorly.

People in commercial real estate are extremely frustrated by this lack of differential in the media. All the "noise" about the residential market and particularly of course, the sub-prime market, is causing those not active in the industry to assume commercial real estate is doing horribly -- and that's just not the case.

The biggest problem in residential real estate is that many investors got in the market after the tech bubble burst and decided to use real estate like they had the stock market ... buy things, flip them to make a profit and run to the next deal, and you know what that never works -- not in the stock market and certainly not in real estate.

Perpetuated by the media

The difference in commercial and residential real estate hasn't been accurately portrayed by the media. There isn't a clean distinction made, and since a lot of the "investors" weren't trained real estate professionals, they and others all link the stories altogether.

I know that the media needs to paint a broad enough picture so the stories resonate with a wide audience; but the focus is so strong and the breadth of the audience being what it is causes problems.

To test this I read with greater interest stories about other industries. I saw how easy it is to be led astray if you don't have a strong base of knowledge about a particular industry. As I paid more attention to media reports and articles about other industries such as health care, insurance and telecommunications, things that I am not informed about as commercial real estate, I found that I pretty much just listen or read and absorbed what I read because I don't know those industries that well.

So with much of the media focusing so much on the "horrible state of the residential real estate market," readers not knowing the difference assume commercial real estate is in the same boat.

What's going on

Commercial real estate is not experiencing anywhere near an assumed downward pressure on values as a result of what's going on in the residential market.

While there may be subsets of the market feeling a pinch, such as retail in expanding parts of the Bay area where new residential developments got bloated with investor purchases and commercial developers weren't relying on demographics with true numbers -- they didn't look at "move ins" but rather just at "sales" -- then

yes, there will be some impact. And while there are also small pockets of suburban office product that got modestly over built, it is certainly not newsworthy.

So here's the deal, we can't blame readers or listeners of reports about the residential market for assuming the same is going on in commercial market. It would sure be nice if there was a way to separate the two, but I don't believe there is a lot of motivation for the media to do so.

The fact that information flows so much faster and because of the sheer velocity and volume, memories are much shorter, just adds to the problem.

The result? Perception quickly becomes reality. And if given the chance to change perception or reality, I'd pick reality all day long. Perception is almost impossible to change because it's based in the mind of the beholder, not fact.

Here in the Bay area 2007 will be remembered for the housing market "meltdown," but it would be a shame if 2007 is also remembered as the year the commercial market started to tank for no sound reasons, just a wrong association.

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