Ferguson Partners

Hiring Forecast

2023

Introduction

"Economic uncertainty" are the watchwords as we move into 2023, a circumstance that presents both challenges and opportunities for commercial real estate firms and investors. The debate over whether the global economy is in a recession is being shaped by geographic realities that include inflation, rising interest rates and an ongoing war in Ukraine that continues to impact global trade and supply chains. Industry observers are seeing signs that Europe could hit its lowest point relatively early in 2023, compared to North America and Asia-Pacific and could, therefore, recover more quickly.

While recognizing the impact of macroeconomic trends is critical, commercial real estate firms and investors need to make decisions based on the facts on the ground. How the economy and industry evolve this year is likely to differ by geographic region and on a country-by-country basis.

This year's Hiring Forecast is designed to help firms understand the current and emerging forces shaping how much and what kind of talent they will need to thrive in 2023 and where to find that talent. Included are key issues that firms are likely to face and which Ferguson Partners will continue to monitor.

As the global market has changed so have firms' priorities when it comes to seeking talent. Many firms that admit to hiring aggressively and paying up for talent may need to restructure in 2023—particularly those on the advisory side of transactions or origination professionals within platforms that are pausing many activities. The resulting whiplash will likely lead to greater caution when increasing headcount.

Firms will be operating in a new market in 2023. Talent management will focus on finding different skill sets. Senior professionals who have led and worked through a market contraction or reset in the past and have the skills to lead and mentor teams that have not experienced this type of event during their careers will see high demand.

There will be new opportunities for firms that are able to turn change and uncertainty to their advantage. For example, there are likely to be opportunities for alternative lending to fill some of the void created as core lenders retreat from certain deals. Firms with access to capital across the risk/return spectrum and across private markets (private equity, infrastructure and real estate) are well positioned to take advantage of opportunistic deals.

Given its importance, C-suite succession planning will continue regardless of the economic environment. The challenge will be to find the right talent able to make the most of current and near future opportunities and position firms to thrive in an uncertain future. This will not be easy. The real estate industry lost a generation of talent that was cut during the global financial crisis. As a result, there is a dearth of talent at the 20 to 25 years' experience level who have worked through a market correction and still have significant runway left in their careers.

Some firms, rather than talent, will gain the upper hand in the talent market for the first time in several years. The resulting leverage will ease pressure on the rapid salary growth many firms experienced, while also allowing firms to bring employees back into the office more regularly. For some firms, there is a growing sentiment that a strong company culture can best be nurtured when people are working together on site. For their part, an increasing number of employees and job candidates feel a clear relationship between office visibility and career growth opportunities.

Diversity, equity and inclusion (DEI) are now firmly entrenched. The normal process of refreshing a board will eventually lead to a truly diverse structure. Firms are expanding their pools of diverse candidates beyond race, gender, ethnicity, and LBGTQ to include socioeconomic, cognitive and neuro diversity. However, there are stark regional differences in DEI success and acceptance, making DEI more challenging for some firms. Our research found that, while the vast majority of firms with formal DEI programs set qualitative and/or quantitative DEI goals, only 41% operationalize those goals by training managers on anti-bias hiring.

Environmental, social and governance (ESG) objectives dominate the conversation among commercial real estate firms, with many announcing goals to reach net-zero by a certain date. These firms are looking for the talent and expertise necessary to achieve those goals—either a single senior leader for all ESG or multiple hires to work on specific ESG goals. ESG talent is particularly important in asset management where impact investing funds focused on net-zero investments are growing in number. As ESG becomes more prominent, firms will need to find new ways to measure performance that balance net-zero goals with maximizing performance and profitability. Facing a dearth of ESG talent, firms may need to focus on passion rather than experience, then provide new hires with the tools and support necessary to succeed.

Base salaries are likely to remain steady while bonus opportunities could be restricted if firms underperform. If talent sees fewer opportunities, those individuals may be willing to accept less to move to a new role, tipping the balance in the talent market back toward the employer. Star performers will continue to be well rewarded, but lower performers could have their bonuses significantly trimmed. There will be outliers to these trends, particularly firms operating in pockets expecting continued growth, such as non-bank lending, and roles involved in raising capital and asset management. Firms remain committed to improving pay equity practices and results.

KEY TRENDS

Asia-Pacific

In a region as large and diverse as Asia-Pacific, current economic trends are likely to apply unevenly and in different forms among, and even within, different countries. India is enjoying continued market momentum. Japan has seen lower inflation and interest rates than many countries, a trend that continues following an unexpected interest rate increase in late 2022. Singapore is building on its emerging role as the main Asia hub for the majority of real estate investors, replacing Hong Kong. Some investors in Australia and Asia may also continue to take capital offshore or otherwise out of the region.

The Australian market is facing very specific dynamics as private unlisted capital is positioned to dominate the REIT sector and the leading Superannuation Funds actively manage more of their portfolios in house. This will likely reshape the talent market for this sector as some groups build internal teams and larger regional platforms. At the same time, several CEO retirements in the Australian REIT sector will likely lead to organizational restructuring and C-Suite churn within some firms.

Other hiring activity is likely to focus on new markets, operational asset classes, the shift from traditional banks to non-bank lenders, capital formation and strategies that promise higher returns. As firms explore their interest in sectors like agriculture, timber, renewables and digital infrastructure, the resulting blurring of the lines between real estate and infrastructure could lead to hiring strategies aimed at new pools of talent.

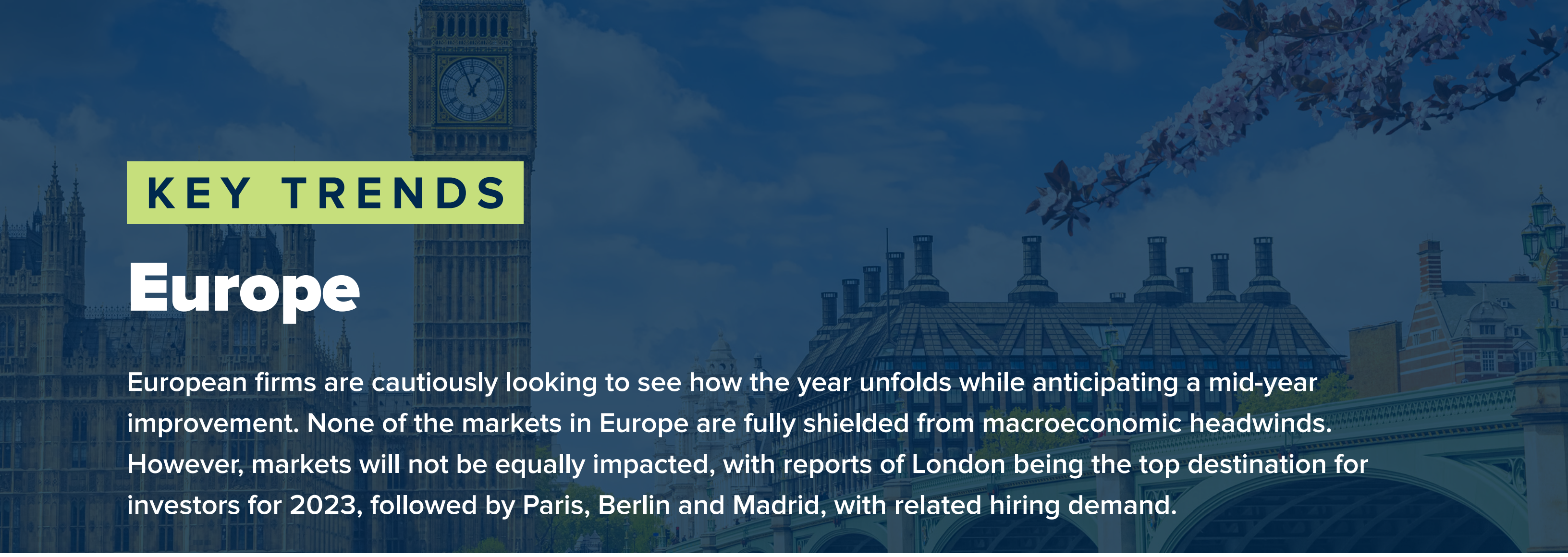
Talent Requirements

Logistics and data centers. As a recognized safe harbor asset, logistics is in high demand among investors. This is increasing demand for talent with logistics expertise, including land sourcing, asset specialists; talent to fill acquisition or fund management positions, especially those with deal sourcing expertise; and talent to support the growth and expansion of data centers, especially in Japan, South Korea, India, Indonesia and Vietnam. Firms will also need C-level leadership to drive strategy and scale platforms, as well as portfolio managers and technical talent for operations and technical management. Private equity capital will be focusing talent acquisition on start-up operators, while developers focus on real estate managers trying to provide local services.

Healthcare and housing. Asia-Pacific investors are teaming up with healthcare service providers and operators, especially nursing homes and assisted living facilities. These deal pipelines may lead to demand for sourcing talent to support land/conversion plays and development and project management talent to lead the builds. Core investors continue to seek multifamily and residential product, especially in mature markets, and build-to-rent and social housing initiatives in Australia. Real estate investment managers, especially in Japan, will likely look to work with local developers to create pipelines for multifamily housing.

Hotels and hospitality. As Covid-19 travel restrictions and lockdowns lift, hotels and hospitality properties are preparing for a resurgence. Investors are looking for talent with hotel backgrounds, especially in asset management, and brokers are boosting their hotel-focused advisory and sales teams. Hotel brands are seeking development talent to source potential hotel sites by working with owners, landlords, developers and other key players.

Real estate and infrastructure. Firms expect more crossover to occur between real estate and infrastructure as they broaden their portfolios of real assets. Firms will also continue to expand and fine-tune their capital-raising capabilities by seeking alternative product specialists across real estate and infrastructure, while larger alternative managers look to build teams to cover private wealth clients. Real estate and private equity firms making moves into each other's territory will need investment professionals who can help expand deal horizons. Asset management talent will also be in demand as firms work harder on portfolio management and repositioning.



KEY TRENDS

Europe

European firms are cautiously looking to see how the year unfolds while anticipating a mid-year improvement. None of the markets in Europe are fully shielded from macroeconomic headwinds. However, markets will not be equally impacted, with reports of London being the top destination for investors for 2023, followed by Paris, Berlin and Madrid, with related hiring demand.

Given the deep discounts to net asset value that most listed property companies have been trading at throughout 2022, there should be significant take-private opportunities in 2023. Those with committed equity anticipate one of the best buying opportunities in a decade. GPs that have raised flexible capital with a Special Situations remit are well positioned to provide liquidity solutions across the capital stack for struggling investors and developers.

Shadow banks and alternative lenders are stepping into the lending void caused by high interest rates and risk concerns. Private debt lenders see opportunities to capitalize on rising interest rates. Limited partnerships are increasingly allocating capital to private debt funds in search of attractive returns despite the general slowdown in activity in real estate capital markets.

Sector Activity

Asset management. Experienced asset managers will be in high demand, especially those who can devise creative solutions to boost the value of existing portfolios, mitigate risk, rewrite business plans and manage the triage of assets to maximize portfolio value. As operating companies increase their focus on investment, we see the potential for increased demand for asset managers from consumer-oriented sectors, such as hospitality, who can transfer their skills to a range of assets from student accommodation to senior living.

Logistics and data centers. Despite continuing strong fundamentals, population growth, and the ongoing surge in e-commerce, logistics is not immune to pricing issues, yield compression, rising cost of debt and development challenges. However, reports suggest that vacancy rates in Europe will fall below 2.5% as demand for space drives up rents. Data centers will need specialist asset management and land-buying talent as they optimize their portfolios or improve existing assets to meet increasing ESG requirements. On the land buying side, the logistics sector will work to leverage existing relationships as mayoralties and municipalities determine land planning use. Asset management talent is likely to move among existing operators, hyperscalers and the asset management teams from the advisory firms. The data center investment market is still in its early stages, providing investment opportunities through direct acquisition or development.

Energy. Historically high energy prices have accelerated the focus in energy-related infrastructure investment throughout Europe. The focus on ESG and technology is creating multiple investment opportunities into the production and storage of energy as part of an allocation to infrastructure and alternative energy.

Life sciences. With rising demand, low vacancy rates and less disruption compared to more traditional asset classes, the life sciences sector presents an attractive investment opportunity. As a result, there is likely to be further fund raising, licensing, real estate private equity deals, merger and acquisition activity and initial public offerings in this sector.

Housing. Demand for housing will continue across Europe, making this sector a popular asset class for both investors and lenders. Investors under pressure to improve their ESG performance metrics will have opportunities to allocate capital to social housing. Student accommodation, hospitality and senior living also continue to provide strong investment opportunities with a fungible talent pool who can move across different specialist "living" areas in this sector.

KEY TRENDS

North America

Firms are focused on senior-level succession planning to ensure that they have the leadership necessary to navigate through these markets while also allowing the Baby Boomers to plan their exit from the industry after an orderly transition. In addition to CEO/President searches, firms will continue to seek strong functional leadership, especially within finance, operations, and asset management.

With the scarcity of real estate credit, the lack of equity transaction volume and the risk adjusted return opportunity, some firms, including insurance companies and hedge funds, are seeking talent to start or grow their non-bank lending platforms and to fill specific needs, such as debt asset management and workout talent. A number of private equity firms are hoping to manage asset servicing costs by building out dedicated platforms in the Sunbelt region with the goal of eventually cutting third party servicing costs. With the scarcity of credit, equity players are also beefing up their capital markets teams, adding professionals with strong relationships while also adding capacity to the team.

Equity capital raisers continue to be in demand; both institutional and retail focused individuals. Teams will continue to grow as the equity capital raising environment becomes more challenging. Institutions are adding talent focused on geography or channels, including high net worth and consultants, while retail investment firms are adding talent that know the RIA and BDC space.

As the investor universe continues to evolve, traditional owner/operator/developers will try to move away from deal-by-deal transactions by building out investment management platforms. Such firms will need additional skillsets, particularly in the portfolio management and capital formation functions.
As we saw on the back of the global financial crisis, private equity firms and hedge fund managers without real assets platforms today will take advantage of the market correction to create new businesses. This will require adding senior professionals with strong track records and capital relationships.

We will continue to see demand for strategy and research specialists within private equity real estate firms. The challenge and the opportunity is matching professionals with core and open ended experience whilst being a strong cultural fit for the fast paced environment of private equity. A strong grasp of technology and a passion for data analytics will also rank highly in many of these mandates.

Focus on Hospitality

The North American hospitality industry is surprisingly strong in all segments, especially luxury hotels. Investors consider this industry to be a hedge against inflation, particularly at the luxury end as remote workers expand the average length of stay by beginning their weekend stays earlier. Talent acquisition will focus on finding people who can scale up new offerings or companies quickly.

Hospitality firms are also shifting their brands away from hotel operations and real estate in order to evolve into more consumer-oriented brands. This strategy places greater value on things like loyalty programs, credit cards, and other auxiliary business lines managed through strategic partnerships. Very little future revenue within the brands will be fee based and instead they will continue to focus on unit count.

Ferguson Partners

Ferguson Partners is the leading talent management and strategic advisory firm for the global real assets industries.