Ferguson Partners

Hiring Forecast

2022

Overview

The tectonic shift in how people live and work over the past few years continues to impact the real estate industry in variety of ways. As a result, real estate investors worldwide face an array of new challenges and opportunities that will shape hiring priorities and activity this year. Longer term, the industry is looking for its next generation of leaders who can succeed in this changing marketplace.

Changing priorities and focus

While hybrid and remote work are not universal, they are widespread enough to affect the real estate market over the long term. **As one industry insider put it, “office towers will never be full again.” If this prediction becomes reality, interaction between workspaces and home spaces will become more seamless.**

This, in turn, will drive a different type of asset management that requires a different kind of leadership. For example, urban regeneration is likely to focus on how to use office assets in different ways, including more flexible use of space in buildings and within public spaces. Real estate firms and investors may also focus on finding long-term tenants, like medical offices with specialized set ups that make it hard to relocate.

Casting a wider net

How well these firms position themselves to take advantage of current and future changes will depend on the strength and vision of their leadership. New challenges often require firms to find people who can bring new skills and perspectives to their work.

In an already competitive market for talent, firms may have to consider afresh what future leaders need to bring to the organization and what they need from those leaders. That is why many real estate firms and investors are casting a much wider net for talent, often by looking outside of traditional real estate for the people they need. This has become a more viable approach to hiring thanks to the blurring lines between CRE and other industries.

While firms identify the next generation of leaders, many firms will also be shoring their internal infrastructure to support future growth. As a result, demand for talent with expertise in operations, technology, finance, legal and other areas will be high.

Succession planning

This wider net for talent will also be necessary to shore up succession planning. **Finding and preparing the next generation of leadership has been a key issue for many years and has taken on greater urgency over time.**

A generation of talent left the industry during and after the global financial crisis of 2008-2009 for more promising opportunities. As a result, the industry's talent pipeline has proven insufficient to its needs.

This dearth of key talent is particularly problematic for the many firms that want to expand their C-suite of executives. Firms see this expansion as necessary to manage growth and pursue a range of new opportunities in the marketplace. Demand for talent capable of succeeding at the vice president level is also particularly high. In general, demand for talent to fill the top 60% of positions continues to grow.

Diversity, equity and inclusion (DE&I)

Firms continue to emphasize diversity, equity and inclusion (DE&I), often contracting for diverse hires throughout the organization and at the board level. In a competitive market for talent, this focus on DE&I is not only the right thing to do, it has also forced firms to abandon certain assumptions about the talent they need. **As a result, these searches have introduced firms to candidates and pools of talent that they may have overlooked in the past.**

Environmental, social and governance (ESG)

Firms are also emphasizing environmental, social and governance (ESG) experience and expertise by engaging in specialized searches for senior leadership and mid-level professionals with ESG capabilities. However, finding the right people will require firms to clearly define exactly what ESG means for their organization and what kind of mandate ESG will have. For example, will certain positions have responsibility for all aspects of ESG or will those responsibilities be divided up by department?

The rise of influence that ESG issues have on the corporate world continues apace. The hiring consequences have been building for the last few years but gathered significant momentum in 2021 and will continue in 2022. **ESG issues touch all facets of business—from capital and debt to asset and development, and from product to completion—and it is no longer a question of "if" ESG will play a part in hiring strategy but "when and how."** Boards and key decision makers must now ensure ESG considerations are firmly embedded in their business strategy and their team capabilities. The impact is being felt across the organizational chart, from the Board skills matrix, through the C-Suite focus, and right across the investment products and asset and development management operational deliberations. Appropriate and relevant skills across all these areas are now an essential part of term competency when considering hiring needs.

Key Trends: Asia-Pacific

Hiring

Hiring in Asia-Pacific is likely to be concentrated in specific cities and regions in 2022 as talent continues to become more decentralized across key markets. This will lead to more hiring of senior-level professionals who are based in Tokyo, Seoul, Shanghai and Sydney, while headcount at the headquarters level in Singapore and Hong Kong increases at a slower rate.

Firms are looking for a new generation of asset managers who can succeed in a changing market. The weight of capital flowing into the region is making it more difficult to create value from the way a deal is structured. Therefore, firms are focusing on asset managers who excel at creating value after the acquisition is complete.

Institutional investors and limited partnerships that delayed their entry into Asia in 2020 because of the COVID-19 pandemic are now significantly under-allocated to the region. These firms are now likely to be looking for talent to support expansion.

Succession planning continues to be a priority in many firms, especially for portfolio managers, deputy portfolio managers and deputy heads of departments.

Investment managers that are working with larger funds and multiple products recognize the need to expand and reinforce their internal operations. This is leading to more recruiting of professionals with experience in fund finance, operations, legal, compliance and reporting.

Real estate investors that want to gain access to niche asset classes by acquiring non-control or control positions in operators and portfolios are focused on hiring acquisitions professionals with corporate finance experience.

Functions and Roles

As managers build vertically integrated businesses, they are looking to develop in-house expertise in a number of areas, including development, project management, leasing, asset management and sector-specific operations.

There will also be demand for professionals in specific corporate roles as firms shore up their internal operations infrastructure. That will lead to additional hiring in investor relations, finance, fund operations and research to support multi-product platforms.

In general, many firms will be looking for professionals with a very specific set of skills and experience. For example, one firm might be looking for acquisitions professionals with experience in corporate finance and mergers and acquisitions, while another needs people with experience in asset management and operations across real estate, infrastructure and private equity.

Asset Classes

Certain key asset classes are emerging in Asia-Pacific that could be an area of stronger focus for hiring in the future.

Real estate investment firms are building their sub-sector and specialty expertise in the areas of life sciences, cold storage, multifamily housing and data centers. Institutional investors, in particular, are increasingly focused on residential real estate as an asset class. Life sciences real estate is also growing in importance, although the sector is still small compared to the sector in the U.S.

Compensation Trends

Firms in Asia-Pacific are not immune to the challenges involved in attracting and retaining key talent. That includes making sure employee compensation levels remain competitive amid rapid and ongoing changes in the talent market.

Firms are conducting more frequent compensation benchmarking to make sure their pay levels keep up with the market. By looking for ways to use pay proactively to retain talent, firms are hoping to avoid losing people to competitors.

To make sure their people fully understand the full value of their pay, firms are taking pains to communicate and educate their workforces. For example, long-term incentives are a significant portion of employee compensation. However, employees may not fully appreciate these incentives unless they understand how these programs work and what they will receive over time if they remain with the firm.

Firms are also emphasizing more than just cash compensation. They are communicating the full value of everything they provide to their people, including health and wellness benefits and policies related to paid time off, workplace flexibility and more. These firms recognize that competitive compensation is just one part of their overall value proposition as an employer.

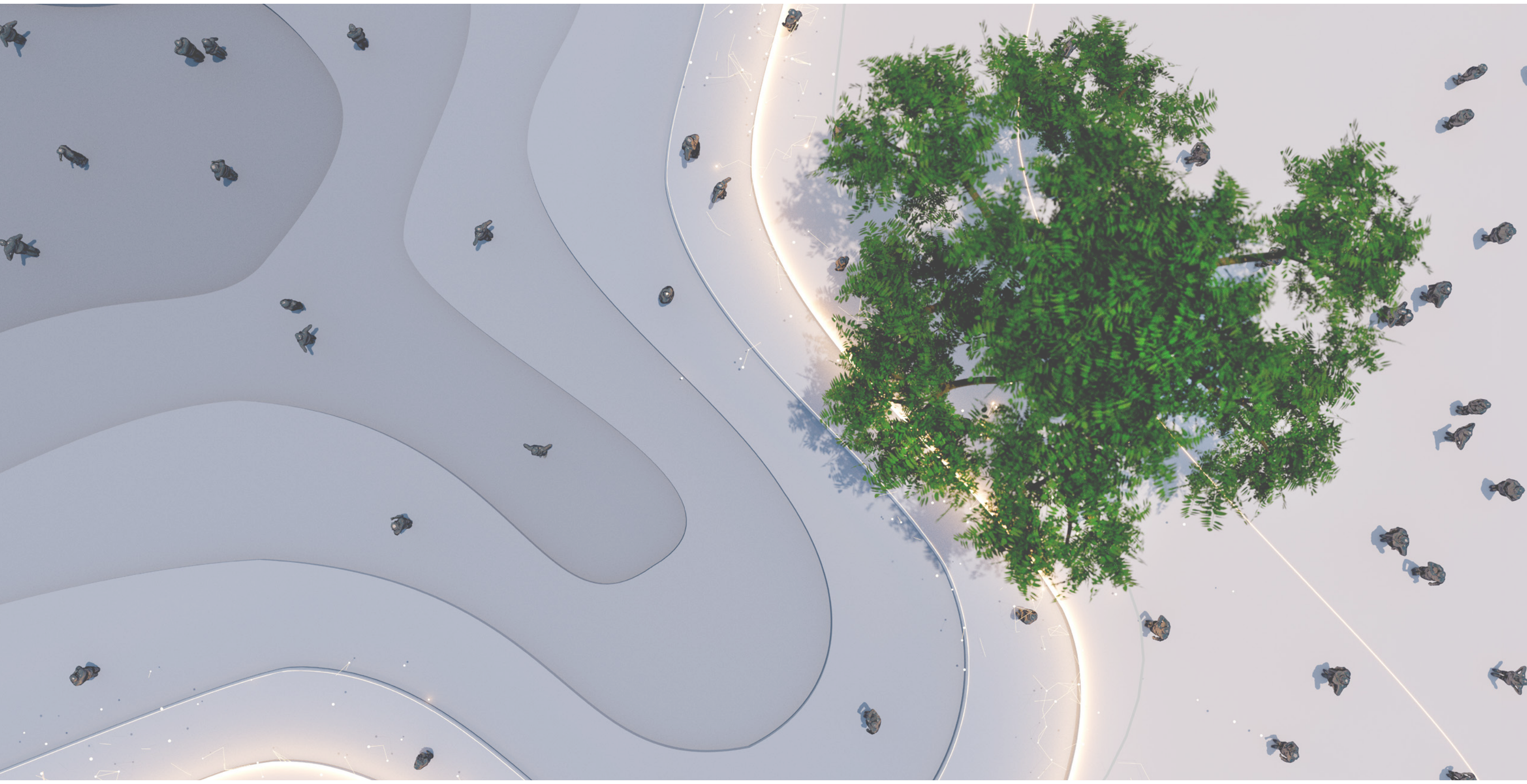
A Look to the Future

Established firms and new entrants in the Asia-Pacific market continue to raise capital from both domestic and international investors. However, they also face pressure to deploy that capital as quickly as possible.

With international travel still difficult because of the pandemic, these firms need to rely on local talent to manage and support this faster pace of capital deployment. This situation is likely to continue for some time. As long as real estate markets continue to deliver returns, fund managers will be able to attract ever larger levels of investment.

As real assets continue to grow, the sector will attract attention from those who have not yet entered the market, including private equity funds and traditional asset managers. New players are also looking for access to Asia-Pacific markets, either through mergers and acquisition or by luring entire investment teams away from other firms.

In this environment, limited partnerships (LPs) that invest directly in real estate are likely to increase. In some cases, LPs will be managing third party capital as like-minded investors seek ways to facilitate capital deployment.



Key Trends: Europe

Hiring

The robustness of the hiring market in Europe which emerged in 2021 is on a trajectory to continue in 2022; although recent geopolitical events have raised question marks around future growth plans. Post-Brexit U.K. is leading the demand in terms of hiring, which is largely fueled by two key drivers: relative value; and North American firms returning to Europe and establishing London-based headquarters. Germany continues to be a key hiring market thanks to low interest rates resulting in continued demand for real estate. The Nordics have been more active than ever, attracting unprecedented levels of international investment which again has the knock-on effect of driving hiring demand.

Functions and Roles

Like many players in the global real estate market, European firms are concerned about executive succession. **Identifying internal talent that can move into executive roles and defining requirements for outside executive hires continues to be a priority.**

There is an increasing move towards real assets solutions for investors and even towards private markets as an investor solutions approach. Particularly at the C-suite level, firms are therefore looking to hire professionals with experience beyond real estate.

European firms are pushing forward with DE&I. This is happening in two ways— consciously working to increase diverse hires and building internal staff to lead these firms' overall DE&I initiatives. **Currently, the focus is on gender diversity which comes at the cost of other diversity groups including race.**

On the global stage, Europe is leading the charge in terms of ESG policy. As a result, firms are hiring talent to manage their own efforts and to act as the interface with their investors. There is a relative skills shortage in this area which means that hires are being made either from the broking/advisory firms or from other industries.

As GPs seek to create an integrated platform, many private equity and investment management firms are adding talent to increase their in-house development expertise. This is not to disintermediate their operating partners, but the rationale being that they need a high degree of development expertise in-house in order to hold their partners accountable. Given the pressure on yields, GPs are increasingly looking to development and redevelopment in order to meet their targeted returns.

The ongoing inflow of capital into European real estate firms demands that firms shore up talent and fill positions responsible for capital raising, acquisitions and portfolio management. Many firms are also adding to their finance staff on a functional level—particularly North American headquartered businesses that have now established enough of a European presence to justify building out their corporate infrastructure locally.

We are seeing a number of platforms looking to hire data scientists to support proprietary data analytics as a complement to their existing research and strategy teams.

Asset Classes

In general, hiring is focused on "beds, sheds, meds and debt." The establishment of new platforms has driven significant hiring volumes across all disciplines. The alternative real estate sub-sectors are absorbing a high percentage of talent as firms seek to specialize in specific asset classes. As seen in other parts of the world, the real estate sector is experiencing a surge in demand for human capital in this space: Housing—as "beds" continues to establish itself as an investible asset class covering affordable housing, social housing, senior living and student accommodation; data centers—given the major growth in digital technology and communications; cold storage—given the increase in online grocery orders and the transportation of temperature sensitive pharmaceuticals; life sciences—highlighted by the pandemic; and the on-going demand for logistics.

Debt funds are emerging as a substitute or complement to mainstream lenders. **There is increased growth in debt intermediaries among brokers and advisors as the number and variety of debt providers becomes increasingly broad.**

Investment vehicles are also changing and with them the talent necessary to manage these assets. For example, rather than dealing with public and private debt and equity, firms are now working with limited partnerships across the risk/return spectrum. This is changing the risk profile of these investments as core and core plus players move up the risk curve, while value-add and opportunistic players come down the risk curve. These new vehicles are driving demand for fund/portfolio managers on an unprecedented level.

Many firms are also moving into secondary markets with BGO acquiring Carlyle's Metropolitan, PGIM buying Montana, Ares acquiring Landmark and Brookfield launching its secondaries business, to provide greater liquidity.

Investors are doing more with fewer general partners. They are also pushing the remaining general partners to think about the end user and adapt to their needs. Many limited partners are seeking to disintermediate general partners by working more directly with operators. Whether or not the operating partners will have the aptitude and appetite for the high level of investor reporting remains to be seen.

Compensation

European firms are facing wage inflation of 20% or more just to retain existing staff and hire new talent in a very dynamic market. Firms have increased bonuses by more than the rate of inflation, across the board, for the first time since the GFC. Although it is by now a hackneyed expression, the "war for talent" is very real and businesses across the industry recognize the disrupting effect of losing not just key talent, but any talent when investment activity is so strong. LTIPs are proving their value as retention tools as employees consider the friction cost of leaving behind significant equity in such a heated market. Firms which do not have existing equity plans in place will struggle to attract and retain talent, even if there is a plan to create equity mechanisms in the near future as the risk cost to the individual is too great.

A Look to the Future

- **Given the current situation between the Ukraine and Russia it is hard to anticipate what the rest of the year may hold. With a backdrop of rising interest rates and inflation, the real estate industry is entering uncertain territory.**
- With the significant easing of COVID-19 restrictions (and even abolishment in some countries) there is likely be a major increase in the hospitality sector.
- The European market may see the rise of non-publicly traded real estate investment trusts (REITs) as investors seek to capitalize on the wealth of retail equity which has been well captured by the likes of Blackstone and Brookfield.
- Real estate firms will be focused on finding alternative uses for retail space as these assets are repriced by the market.
- As working from home is replaced by a hybrid model of office and home work, flexible offices will benefit from occupiers' need for more adaptable space.
- COVID-19 has sparked an increased appetite for entrepreneurialism amongst the 20s and 30s workforce. This will lead to further business startups with a low initial cost but the ability to broaden out into different sectors, especially prop tech, where there is still a need for traditional real estate professionals.

Key Trends: North America

Hiring

Hiring in North America is occurring across all levels, functional roles and asset classes. **Securing CEO succession, in particular, has become a pressing issue throughout the industry.** Firms have made diversity, equity and inclusion (DE&I) a focus throughout their hiring activity, and they are actively adding the talent necessary to follow through on their environmental, social and governance (ESG) commitments.

Functions and Roles

Leadership succession is a pressing priority throughout the industry. In our work, we saw CEO succession searches increase by 40% in both 2020 and 2021. **These searches are no longer limited to large institutional firms but include more entrepreneurial firms and real estate investment managers following the mandates issued by their investors.** We are also seeing leadership succession being addressed at the C-level below the CEO.

REITs, in particular, are identifying their next generation of leadership as the first generation of REIT founders gets ready to pass the reins to a new generation. Less clear is which internal candidates will be ready to receive them. These firms are paying the price for not building a strong bench of talent in anticipation of this changeover. In many cases, they are considering outside candidates for the first time. When the leadership changeover finally occurs, they may need to rejuvenate the board of directors to ensure that they have the talent necessary to meet new challenges.

More broadly, organizations are reevaluating internal succession candidates and their professional qualifications, to avoid relying too heavily on internal politics and personal attributes. This includes conducting professional assessments to understand if the internal candidate truly has the requisite leadership and strategic skills.

Firms are also looking for fresh talent in other parts of the C-suite. COO searches in 2021 represented a fourfold increase compared to 2020 and CFO searches increased by 50%.

Asset Classes

Firms will be hiring in the following asset classes:

- Institutional capital raising hiring is likely to increase with firms focusing on candidates experienced in working with high-net-worth investors and family office distribution.
- Hiring in commercial and single-family residential lending continues to thrive due to low interest rates and high transactional volume. The single-family for rent sector continues to experience strong growth due to strong demand for the product type post-COVID-19 and investor demand.
- Asset management hiring is expected to increase across all of the operationally intensive asset classes, including student housing, seniors housing and single-family rental property. **Hiring in other sectors, including hospitality, retail, restaurants and vacation travel, all recovering from the pandemic, are also likely to thrive this year as this sector continues to benefit from pent-up demand.**

Hiring Spotlight: DE&I and ESG

Two of the most important trends in the industry—DE&I and ESG—are top of mind for North American firms when searching for talent.

Firms have been issuing diversity mandates when filling seats on boards of directors. Some of this increase is in response to pressure from investors and developments like a new California state law that requires public companies in California to recruit directors from underrepresented communities. However, firms are also beginning to recognize that a diversity of perspectives leads to better business performance, especially at the highest levels of the organization.

Overall, board searches overall doubled in 2021 and that pace is likely to continue throughout 2022. Nearly two-thirds of our 2021 searches included an ethnic/gender mandate, a trend that is likely to continue at some level in 2022.

ESG searches are also becoming much more common, with the number tripling last year. This is not surprising given the greater focus on ESG by firms and investors.

However, many firms are still working to define what ESG means within their organizations and to determine how ESG will impact their leadership teams and ownership, performance metrics and a host of other areas.

Right now, firms are emphasizing environmental skill sets when hiring operations talent, while focusing on social and governance requirements when searching for chief human resources officers (CHROs), Generals Counsel and board members.