

# PLUGGING THE SKILLS GAP



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# Several key trends are forcing change in the global commercial real estate industry, driving demand for new skills. How is the industry responding?

Rapidly evolving trends in work habits, technology, environment, and demographics are forcing change in the global commercial real estate industry. The demand in talent recruitment for colleagues and leaders with new skills is growing in kind. How is the industry responding? To get some ground-level insights, we interviewed more than a dozen industry leaders from North America and Europe to understand these changes, and how they impact hiring as well as retraining of employees.<sup>1</sup>

## COMMERCIAL REAL ESTATE IS NOW A SERVICE INDUSTRY

The traditional arms-length relationship between owner and occupier is fast going the way of the dodo. Whether due to the “WeWork effect” or a broader societal trend, tenants are seeking more flexibility in their office space, coupled with expectations for a more robust service model from owners.

According to a recent report from JLL, the average term of a US office lease, now at seven years, fell during the first five months of 2020 and is “likely to fall further.”<sup>2</sup> In the UK, the average is six years. In Hong Kong, it’s three.

The result of more demanding tenants and shorter leases is a much more operational future for commercial real estate—more “real estate as a service.”

“Real estate is not a commodity anymore,” says Karim Habra, Head of Europe and Asia-Pacific at Ivanhoe Cambridge. “If you’re not service-oriented, you will fail.” According to Nathalie Charles of BNP Paribas REIM: “Historically you could make a return from buying an asset and waiting for the yield to improve. Now, given the low-yield environment, managers will need to work much harder to add value to a building.”

The shift they are describing—to hands-on full-service provision—calls for a different skillset.

“Historically, investment managers have focused on capital as the client. But now they also have to think like an operator and focus on the end user as the customer. Investor and operator skills are different and each area needs to be resourced appropriately,” says Jeremy Plummer, Global CIO, CBRE Global Investors.

Further, “In order to deliver upon investors expected outcomes, more will be required of real estate investment managers,” says Tony Smedley, Managing Director and Head of Private Equity at Heitman in London. “They will be required to act as a mini-CEO of their business line, creating strategy, having vision, and managing all aspects of their operations. Investors are looking for partners to provide tangible value-add to the relationship with tenants.”

And this is not the only important trend calling for new skills.

## ESG AND TECH SKILLS ARE NEEDED TOO

Real estate investors are increasingly prioritizing environmental, social, and governance (ESG) concerns. “Even if the numbers are good, we could not do a deal if there wasn’t a positive environmental impact,” says one senior executive from a real estate investment firm based in Paris.

Stephane Jalbert at PSP Investments agrees. “It will become more and more difficult to work with an operating partner that doesn’t have robust ESG practices,” he says.

The consensus from our contributors is that real estate managers and developers must understand what a sustainable building is, and how to measure that sustainability.<sup>3</sup> “Carbon pledges” have joined the sustainability lexicon, and real estate investors are seeking ways to develop properties that contribute towards decarbonization while maximizing returns.

**Another fast-growing ESG priority is diversity and inclusion, aimed at both the social good of increasing representation and the business benefits that come from fostering a diverse approach to problem-solving.**

Our contributors are clear that the industry also needs to focus more on technology and innovation. Deloitte recently published a global survey of 200 commercial real estate leaders in which only one third of respondents agreed or strongly agreed they had the resources and skills required to operate a digitally transformed business.<sup>4</sup>

Real estate has been slow to adapt to digitization.<sup>5</sup> But “innovation will come, and tech skills will be key,” says Zsolt Kohalmi of Pictet Alternative Advisors.

So, given the skills gaps in service provision, ESG, and technology and innovation, are companies hiring talent from outside the industry or fostering these skills in-house? The evidence from our contributors suggests a mix of these two approaches.

## HIRING TALENT FROM OUTSIDE THE REAL ESTATE INDUSTRY

As a result of the shift to more hands-on management, our contributors say they have hired outside the industry for skills in accounting and operations, particularly from the hospitality and retail industries, large consulting firms, and tech startups. As one contributor said:

“We need businesspeople: Accountants to really understand the P&L and individuals from low-margin businesses with operational know-how.”

Eric Adler, President and CEO of PGIM Real Estate in London, says most of his firm’s recruitment from outside real estate was to boost innovation. “Our [hiring decisions] have not all been tech and data but they have been mainly for reasons of innovation,” he says. He cites fintech and automation skills as particularly important. Other contributors mentioned the need for more data engineers and analysts.

Some investment managers are looking to bring development experience in-house too. As more properties require repurposing to meet market demands, investors who used to focus exclusively on financials are now looking to construction and development talent to bring in hands-on bricks-and-mortar experience to create value.

Almost half (46%) of our contributors expect to hire talent from the hospitality sector when focusing on operational skills in asset management, finance, and operations. More than half (54%) of our contributors have also hired from retail and operational fields or are planning to do so. Just over a third (38%) will hire specialist tech talent. Almost two-thirds (62%) intend to hire more talent from outside the real estate industry over the next two years.

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## REAL ESTATE KNOWLEDGE REMAINS CRUCIAL

Hiring outside talent is the fastest way to plug any specialist skills gap and can also be a means to boost diversity. But real estate industry knowledge remains crucial. That's because any change or innovation requires buy-in from an organization. This point is supported by Eric Adler at PGIM Real Estate:

“We hired a head of innovation but decided they needed to be from the real estate industry,” he says. “The reason being that, because the tech is all there, the challenge is how to execute it within your own organization. You need someone who can get buy-in from everyone and who has credibility because they understand real estate.”

In ESG, perhaps more experienced talent exists outside the real estate industry or comes from tangentially related fields. For example, some companies are hiring architects and engineers to boost sustainable property development and management. But several of our contributors argue that a Head of ESG should be from a real estate background to help get buy-in from the business on new initiatives.

As a result, our contributors are also hiring from within the real estate industry while increasing training.

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## THE CASE FOR TRAINING AND CULTURE CHANGE

As our contributors focus on training, they review the skills gaps in their organization regularly, then look at how to fill those gaps. In those areas where real estate knowledge remains crucial, they look to develop those skills internally.

When targeting internal talent for additional training and new “stretch” roles, our contributors focus mainly on one thing: mindset.

“It is more about aptitude than expertise,” says one. “People need to change their mindset and be open to change.”

This may be the biggest challenge of all. The majority of investment managers and advisors are still promoting people based on their deal success, not on their ability to manage a business and its culture. As we've seen, this model is no longer fit for purpose.

Is your business ready for change? The industry needs leaders to be flexible, open-minded, courageous, and responsive to the needs of clients. Wherever you look for the skills you need, the right mindset will make your success far more likely.

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## ABOUT THE AUTHOR

Max Shepherd is Director, Global Real Assets at Sheffield Haworth, which provides highly tailored executive search and talent advisory services to help financial services companies find, attract, and retain talent.

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## NOTES

<sup>1</sup> Many Thanks to Our Contributors: Eric Adler, President & CEO, PGIM Real Estate; Guillaume Cassou, Partner, Head of Real Estate Europe, KKR; Nathalie Charles, Deputy CEO & Head of Investment Management, BNP Paribas REIM; Keith Gelb, Managing Member and Co-Founder, Rockpoint; Spencer Raymond, Senior Managing Director and Chief Financial Officer, Rockpoint; Karim Habra, Head of Europe & Asia Pacific, Ivanhoe Cambridge; Lars Huber, CEO, Europe, Hines; Stephane Jalbert, Managing Director, Real Estate Investments, PSP Investments; Matthew Karp, President, Americas, Amstar; Giles King, CEO, Mayfair Capital, Swiss Life Asset Management; Zsolt Kohalmi, Global Head of Real Estate & Co-CEO, Pictet Alternative Advisors; Ian Marcus, Senior Advisor, Eastdil Secured; Jeremy Plummer, Global CIO, CBRE Global Investors; Tony Smedley, Managing Director, Head of European Private Equity, Heitman; Chris Taylor, CEO of Real Estate and Head of Private Markets, Federated Hermes; Simon Treacy, Independent Advisor, Previously President of Howard Hughes, Hawaii, CIO for BlackRock's Global Real Estate Business and CEO of MGPA.

<sup>2</sup> [jll.co.uk/en/trends-and-insights/workplace/office-leases-are-getting-shorter](https://jll.co.uk/en/trends-and-insights/workplace/office-leases-are-getting-shorter)

<sup>3</sup> See also: [afire.org/of-note/afire-2020-investor-survey/](https://afire.org/of-note/afire-2020-investor-survey/)

<sup>4</sup> [www2.deloitte.com/us/en/insights/industry/financial-services/commercial-real-estate-outlook.html](https://www2.deloitte.com/us/en/insights/industry/financial-services/commercial-real-estate-outlook.html)

<sup>5</sup> See also: [afire.org/summit/datatechnologyrealestate/](https://afire.org/summit/datatechnologyrealestate/)