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Surviving in the Real Estate Arena: Evaluating Your Human Capital Factor

Recession Rewrites Rules For Workers

By Debra S. Barbanel

The real estate world has hit the reset button. While the last 12 months have seen little if any hiring, our industry is beginning to see signs of emerging from its frozen state. No doubt, coming off the heated investment-oriented real estate markets of the early 2000s, the credit crunch has restructured the real estate recruiting landscape at an amazing rate.

The most valuable asset a real estate firm has, however, is its talent. But how valuable is it? Has compensation taken on a different meaning? Are there any new positions opening up and, if so, what are the driving factors? First, companies are changing their focus when it comes to hiring. Despite the distress in the market — implying unprecedented investment opportunities — companies spend up to 80 percent of their focus on "legacy issues" — i.e., workouts and troubled assets.

The remaining 20 percent is spent on analyzing potential new investments. As a result, those with asset management and workouts of troubled assets in their background are well-positioned for job security.

Second, the pendulum has swung away from the days of large signing bonuses and two-year meaningful guaranties for a topnotch developer or acquisition guru. Today, positions emphasizing investor relations, portfolio and asset management and financial controls are in vogue.

Although many assumed just six months ago that the executives in demand would be workout specialists who have gained their knowledge from weathering past market downturns and those with best-in-class operating experience, this hiring demand has not yet come to fruition.

Many companies, including banks, are transitioning their production-oriented executives, such as investment executives and loan originators, to the newly formed workout teams. It remains to be seen, however, whether or not these executives have the right temperament and skill set to guide their companies through the masses of workouts and reevaluations that remain on the books.

Looking forward, one of the best examples of companies resetting their strategies is the increase in demand for those who are seeking a broad array of "capital raisers" — those who are responsible for soliciting funds from institutional investors and high-net-worth individuals.

Many firms, even those with tremendously successful capital-raising executives and limited legacy issues, realize that the capital commitments of existing investors in future funds will be less, thus forcing companies to toss a broader net (including internationally) to secure additional investors. The access to additional capital will come from only those with networks that reach into pockets different from what the company currently manages. As a result, those with the right connections, who truly understand real estate investing and have access to solid capital sources globally, are in hot demand.

MOVING THE COMPENSATION METER

The biggest area of interest, of course, is compensation. Is the meter moving? Is it up or down from 2008? Or is it simply different? The challenge for firms in general is ensuring that their key executives are committed to the company and remain motivated during this period of unprecedented change.

While experience is expensive, it's much less so in today's market. In both the public and private sector, the most consistent topic tied to the compensation dilemma relates to long-term incentive programs (LTIPs). Remember, compensation is often more than just annual salary and bonus, particularly in this industry.

In general, REITs are better positioned than the private sector to provide a more meaningful 2009 long-term component to compensation in terms of stock grants. Due to the decrease in share pricing, however, significant grants may be overly dilutive and thus prohibitive. In addition, many stock plans do not have sufficient shares available, making shareholder approval a requirement to increase shares. Naturally, in this market management will hesitate before doing so. Nevertheless, many believe the inherent upside in share pricing will allow some REITs to address compensation rather effectively in this market.

On the private side, most "promotes" (a longterm compensation structure in which there is a significant payout upon achieving certain return objectives) are underwater. As a result, many firms are focused on participations in future funds, if and when they actually evolve.

Today, companies are taking the position that there will be no make-ups for value lost in current funds. The downside risk and upside potential are the realities of aggressive promote structures in the private sector.

There is a "trust me" aspect as it relates to future LTIPs in the private space, contingent upon a robust capital-raise initiative and, more importantly, a successful investment cycle paying out on the future promotes.

At this juncture, companies are grappling with the compensation issue, awaiting others to make the first meaningful decision. The year-end compensation assessment phase promises to be a dynamic period of discussion and anxiety.

IPO: THE EXIT STRATEGY AGAIN?

For those who carry the chief financial officer title, 2010 may be a good year. While it sounds like a repeat scenario of years gone by, many companies today are considering an Initial Public Offering exit strategy.

For those with strong capital markets backgrounds, this will bring good news. With the successful secondary offerings of several large REITs and the favorable market reaction to some emerging mortgage REIT offerings, certain companies should make the public exit decision. This may result in an influx of IPOs, opening the door to hiring initiatives for chief financial officers, general counsels and board members.

Clearly, the real estate market is undergoing a significant realignment and, of course, the talent pool is adjusting accordingly. While this readjustment to the economic realities of today has resulted in a contraction in this industry, there still remains a tremendous need for experienced talent to lead firms through the downturn. While most have accepted the realities of the marketplace — and made the necessary staff and other expense reductions — stabilizing the capital base by monitoring the human capital is an essential ingredient for executing a strong business strategy.

Debra S. Barbanel is based in the Los Angeles office of Russell Reynolds, a global executive search firm. She is the co-leader of the firm's Real Estate Practice for the Americas.