THE GRAYING OF COMMERCIAL REAL ESTATE

HOW AND WHY THE INDUSTRY NEEDS TO RESPOND

By Jay Olshonsky, SIOR, FRICS

The commercial real estate industry faces a talent gap. In particular, the graying of the industry or, put another way, the degree to which both Gen X and millennials are so underrepresented in the CRE workforce, not only stifles technology adoption and innovation, but could also present a significant risk to future deal volume and cash flows. In short, the industry must respond.

HIT BY DOWNTURNS AND TECH BOOMS

No matter where we look, this is a graying industry and there are a number of drivers. The most prominent and largely uncontrollable of these is the timing and scale of a number of historical economic events, including CRE corrections.

The first relevant event was a major correction beginning in 1989 and running through 1995. In the early 1980s, our industry was not only growing, there were only limited barriers to entry. As a result, CRE attracted flocks of both business school graduates and in many cases, those who had not completed school but who were ambitious and willing to work hard and learn.

Fast forward to 1989 when the savings and loan crisis punished the marketplace, hiring ceased, and the layoffs began. For six full years, whether working as a real estate banker, broker, or owner, the expression was “stay alive ‘til ’95.” Yes, the industry eventually came back to life, but absent a broad swath of its Gen X workforce.

At nearly the same moment, a second event unfolded. Next we're experiencing the rise of the internet and a closely associated technology boom. Yes, CRE had openings. But now we were competing for top talent with one of the most exciting industries to come along in decades. Moreover, the CRE industry was asking its entry and mid-level talent to accept a draw against commission-based positions. Contrast that to salaried positions and the allure of a high tech IPO. When all was said and done, in terms of talent acquisition, the 90s became sort of a lost decade for the CRE industry.

Things weren't that much better in the new millennium. First came the tech correction of 2001. The economy and real estate values reeled – and again our industry jettisoned a good deal of its mid- and entry-level talent, instead opting to hold on to its longstanding, experienced, connected producers. Then in 2008, the cycle repeated.

THE RISKS

The net result is an industry top-heavy in highly valuable, but nonetheless, graying executives and significantly deprived of mid- and entry-level talent, leading to two sets of risks.

• Economic risks: Think about independently-owned or even some of the larger, publicly-owned brokerage companies. Traditionally, people talk about the "80:20 rule," where 80 percent of the revenues are being generated by just 20 percent of brokers. But with the aging of the workforce in CRE, the ratio at many companies is now actually more like 90:10, with 90 percent of the business flowing from just 10 percent of the workforce. That's dangerous – as if even one of these high-value, well-connected, high-skill brokers gets picked off by a competitor, or retires, or just leaves unexpectedly, that could be enough to turn overall profits for the firm into losses. Now recognize that most, if not all, of a firm's top-earning 10 percent is likely to be age 50, 55, or older. The odds that a firm could lose one or more of its top earners increase significantly.

• Strategic risks: There's another set of less obvious, but potentially just as devastating, risks. And that is, the loss of innovation and opportunity brought on by not pursuing and sustaining a younger and more diverse workforce.

Granted, the most successful senior executives in the industry are already doing more with technology – they are by no means technophobic. The days of relying exclusively on knocking on doors to discover prices, occupancy rates, or a prospect's inclination "to need more space" are long gone, replaced by database searches and related high tech means.

But if we're honest about CRE, this is an industry that lags others in terms of embracing new technologies, processes, and business models. Where are the true breakthroughs – the innovations? Those tend to arise when younger workers – those who embody today's technological, commercial, and overall societal trends – encounter established processes and relationships and ask "why?"

Look also at today's CRE customer base. Owners of commercial property have generally tended to be older, more established executives. But today, some of the most prolific "customers" are themselves young, innovators/investors (think: Facebook/Zuckerberg). The fact is, Gen X and millennials are now the dominant force in society and they are rapidly moving in to CRE. So any scarcity in Gen X or millennial workers runs counter to your customer and prospect base representing a potential weakness for your organization.

TAKE ACTION

The question becomes: what should the industry be doing? First, it is vital that CRE companies conduct a comprehensive talent "gap" assessment. That is, look at the strategic plan, one, two, five, or more years out. Now compare the talent you have to the talent your plan says you know you will need. Do you have a gap? Do you have too much talent – those with the strongest industry relationships, transactions experience and general industry insight – concentrated in too few older workers?

If such an assessment shows a widely distributed knowledge base across a wide range of ages, genders, and ethnicities, congratulations are in order. But more likely, companies will discover a number of gaps, an imbalance of senior talent, and not enough entry- and mid-level talent, which should in turn dictate the sorts of necessary initiatives.

If you are like most companies in the CRE industry, you'll likely notice the graying of your organization, which means one of your core talent focuses becomes recruitment. Here, to gain access to top talent, companies may find they need to adjust a handful of long-standing industry practices. Look first at compensation. Other appealing industries offer salaries plus bonuses along with a range of benefits. By comparison, the

traditional "strict draw against commission" pay structure at the entry- or mid-level may be placing your organization at a disadvantage.

Bear in mind, things have changed. Ten or so years ago, a typical deal might close in six months to a year. But today, transactions often cannot achieve close for 18 months or more. This is a very long period to have to wait for certainty in reward – regardless of generation – leaving many to leave the firm before their first transaction closes. These workers receive training and experience at your expense anyway. Ask yourself: are you better off paying more in the way of salary in order to improve retention?

REDEFINE THE WORKPLACE

Another aspect of recruitment – and increasingly retention – is the availability of more flexible, mobility-enabled working conditions. Technology today enables workers to conduct business anywhere, anytime. Moreover, many workers, often single parents or simply those seeking a greater work/life balance, insist on flexibility. As such, the CRE industry needs to learn how to define roles and evaluate performance based on output, not face time. If a company is locked into the model where it requires everyone to show up at their office at 7 a.m. and not leave until 7 p.m., they are likely squelching not only the true productivity of the workforce, but also its creativity.

Face it, the most creative and innovative workers of today will not sit for it. In fact, some of the most productive CRE executives of today get some of their most valuable work done from home somewhere between 10 p.m. and 2 a.m. – often on a weekend. At our firm, some of the most prolific brokers [producers] live in another state or time zone from their target market.

A key aspect in all of this is succession planning, the conscious act of making certain that industry knowledge, contacts, insight and expertise are being exchanged in a disciplined and orderly fashion. A key component of such continuity-focused initiatives is mentoring, where those long-in-the-teeth in the industry share, both formally and informally, with younger, less-experienced workers. By all means, such mentoring should be encouraged.

> *"Gen X and millennials are now the dominant force in society and they are rapidly moving in to CRE; any scarcity in Gen X or millennial workers runs counter to your customer and prospect base, representing a potential weakness for your organization."*

IMPLEMENT TWO-WAY MENTORING

Perhaps an equally, if not even more critical, initiative is to implement reverse-mentoring. Newer entrants to the CRE industry are digital natives, never knowing a time without a computer screen or perhaps even smartphones. These staffers are significantly more likely to be on top of key cultural and technology trends. This means an aptitude for not only databases and big data, but also social and business-oriented media ranging from Twitter and Facebook to LinkedIn. All can be employed to gain insights into specific deal opportunities, gather general intelligence, or to promote the firm. The more culturally aware and technologically savvy the organization, the stronger its performance and the greater its capacity for innovation and performance breakthroughs. Accordingly, mentoring today should flow both up and down the organizational chart.

Amidst it all, don't ignore retention. Never lose sight of the fact that your company can ill afford to lose its top talent – no matter their stage in the organization. Identify those in the company who are essential to its success, who are critical both today and to future growth, and then make certain to address their needs in everything from compensation to work/life balance.

GO ON THE OFFENSIVE

The industry has come a long way from the days when building a business meant knocking on doors and dropping dimes in pay phones in order to research markets, build relationships, and identify opportunities. Clients today have more information resources of their own and as a result are becoming less relationship-oriented and more transaction-focused.

But the graying of any industry makes it increasingly difficult to keep up with such changes in society, technology, and ultimately business. Moreover, concentrating so much on performance among a group so much more likely to retire or otherwise depart the company is a recipe for ruin. The most successful organizations of any era are those who find a way to harness a wide array of talent including all generations.

So how gray are your ranks – and is your gray workforce embracing or even driving change or just hanging on to established practice? Given all that we see in the marketplace, odds are, you're facing a talent gap, meaning it's time to take action. ■