

Global trends in real estate investment

Talent demand is tracking to the trends

After years of drought, capital is flooding into real estate again. Investors beyond the largest private equity firms and REITs now have access to capital. Markets like New York, Hong Kong and London which rebounded the quickest from the financial crisis, remain robust — but the rising tide of investment capital has driven activity across the risk spectrum and across asset types.

Talent demands are tracking to these trends. For example, asset managers with development and construction knowledge are needed to direct building renovations that will command higher rents. Many of the attractive assets for investors in secondary and tertiary markets are opportunistic and value-add rather than core. As a result, a new, sleek glass façade, HVAC overhaul, a refurbished lobby or LEED certification may be necessary to make these buildings attractive

to tenants. Transforming tired, out-of-date spaces into valuable assets requires far more than financial reporting expertise and deal-structuring experience.

Firms of all sizes are also hiring capital raisers for real estate. Two to three years ago, the capital markets were slammed shut for all but the largest GPs. Today, the market is slowly changing; smaller funds have been able to attract new capital—when they have demonstrated that they have unique investment strategies or strong track records, either on their own or partnering with placement agents. As a result, both funds and placement agents are in the market hiring new talent at all levels.

Globally, there is considerable interest in and demand for real estate in Europe, particularly from sovereign wealth funds and Asian capital. Investors see more opportunity — to purchase assets at lower prices relative to the quality of the real estate — than they do in many other markets. Their appetite for risk has risen as their search for value intensifies.

As a result, many firms are trying to figure out how to scale their business in Europe and the talent implications of their choices. One popular option, particularly for the big players, is to hire a team on the ground in Europe and send over a senior member of the organization as the lead. Sourcing the team leader from in-market in Europe is another possibility, as is acquiring a platform through merger or acquisition (M&A).

A quick scan shows these trends in real estate investment—and real estate hiring—developing across major markets in Europe, Asia, Latin America, the Middle East, and the United States.

Europe

Hiring is particularly strong in the U.K. and Germany. With opportunities abounding in Spain we have seen many European and U.S. opportunity funds and hedge funds scouring the market. This has not as of yet translated into significant growth in hiring; it's been mostly a market for independent consultants. A surge of interest in Spanish retail assets is leading to new developments along with hiring of leasing directors, investment managers and CFOs.

With the flow of U.S. and Asian capital into Europe from Sovereigns and alternative type vehicles we have seen a very significant surge in demand for investment professionals to be based in London, especially those who can invest up and down the capital structure. North America hedge funds and private equity players are particularly active.

Residential is a key growth sector in the U.K. as well as in Spain. With activity in some sectors approaching pre-downturn levels, project management and cost consultants are in demand to prepare properties for the delivery phase. London has enjoyed a surge in large-scale mixed-use development schemes. Given the number of projects in development and still in the pipeline, we believe this will be a growth market for some time to come.

Firms are looking for talent with deep relationships with institutional investors and access to sovereign wealth capital. They also want professionals with strong technical knowledge, a commercial mindset, and the ability to structure solutions. Owners expect to drive occupier-demand and build relationships with their clients through smarter asset management and leasing. Furthermore, with more firms providing non-bank debt, the demand for commercial debt professionals is rising.

Germany is the most dynamic economy in Western Europe, with the lowest unemployment as well as stable and reliable political conditions. As in London, top quality assets are in high demand and short supply, with strong interest from both core and opportunistic investors as well as other mid- and long-term players.

In terms of senior talent, key shortage areas in Germany include CEOs/CFOs with capital market exposure in real estate as well as COOs with a state-of-the-art toolbox. For junior talent, the demand for well-trained, internationally astute talent with analytical skills is far higher than the supply.

Italy still remains slow in terms of talent growth although we have begun to see growth in certain sectors such as retail and logistics, primarily within the Milan region. Increasingly, opportunity funds are considering how and when to invest in Italy.

While French economic recovery has been lagging behind its European counterparts, the first trimester has seen a positive increase in investment volumes. 2013 was marked by an absence of foreign investors on the French real estate market, however 2014 is starting to see their return. Nevertheless there has been a consistent demand over recent time for senior leadership talent as the demands on those running businesses have become ever more complex. Outstanding leadership and management abilities, strategic vision and endurance are just some of the qualities sought in today's environment. On top of this, investors continue to look for leaders with outstanding transactional and strategic business development skills combined with operational and technical knowledge of assets. More broadly, there has been a sustained demand for asset management and finance professionals particularly at a mid-level and now an increasing interest in acquisitions professionals.

The type of capital now investing in Europe is changing, and many hedge funds are looking at the sector. U.S. credit funds are particularly active across the continent and often in competition with opportunity funds. As a result, demand is rising for professionals with a track record of investing up and down the capital structure and a keen eye for spotting opportunities.

Middle East

Dubai's status as the host of EXPO 2020 will catalyze a frenzy of activity in its leisure market. Besides new hotels, large-scale residential development projects will multiply. Traditionally, real estate growth has been underpinned by large government-backed entities; however, as the market improves in the United Arab Emirates, foreign institutional investors are making their presence known.

Policies concerning the ownership of freehold residential properties have changed in Abu Dhabi. Special "free zones" have been created to allow noncitizens to own freehold property. This policy was specifically targeted to attracting foreign investment.

Volume is the primary factor here. The region was unprepared for the last boom—this time, the caliber of talent required to deliver on particular strategies is better recognized. Emeritization, however, may still present a hurdle.

Asia

More funds are reviewing their hiring plans as the focus continues to shift up the risk curve—toward opportunistic or niche strategies and geographies once considered frontier. In addition, as an increasing number of local and regional developers explore the launch of dedicated investment vehicles with a component of third-party capital, demand is beginning to increase for senior finance and operations professionals with experience of hard asset funds.

Sectors seeing increasing interest include industrial and logistics, senior care, self-storage, retail, redevelopment and core manufacturing assets. Top markets for institutional investment in 2014 are expected to be Japan, Hong Kong, Singapore, and Southeast Asia. Asian capital from sovereign wealth funds, pension funds, insurance companies and ultra-high-net-worth individuals will continue to flow west, particularly to the U.S., UK and increasingly in mainland Europe. Demand for fund-raising professionals with experience, networks and strong real estate knowledge will continue to be strong.

Japan: Hiring interest is high for acquisitions professionals — particularly those with strong credit experience who can buy “the worst house in the neighborhood,” fix it and sell it. Asset management and financial structuring professionals are therefore also in demand.

China: While China has long been among Asia’s most competitive markets for real estate talent, hiring is expected to be more muted than in recent years. Prices of land and hard assets are considered richly valued by some investors. Moreover, uncertainties around government regulations, a slowing economy and a shift of industries, such as light manufacturing, to cheaper labor markets in Southeast Asia have combined to make some investors more cautious. Funds are taking a more careful approach in building teams. Recruitment activity is largely focused on replacements or upgrades rather than expansion. Local developers, having built domestic investments teams earlier, are now increasing their focus on opportunities outside of China.

India: Investor interest in commercial real estate is rising in India—and is expected to continue to rise through 2014. The government’s allowance of real estate investment

trusts (REIT) in 2014 is generating interest in commercial development in major metropolitan areas such as Delhi, Mumbai, Hyderabad, Bangalore, Pune and Jaipur.

Residential development has been sluggish and will continue to be until mid-2014, when the results of general elections in the country will be announced. Historically real estate investments have risen within 6 months of general elections. The partnerships with international celebrities and iconic brands (e.g., Armani) now being forged by developers of premium residential properties serve as another trigger for development.

Niche skills like project management, design and architecture are still not readily available in local markets in India. As a result, developers will continue to scout for talent in developed markets. Furthermore, promoters want to disengage themselves and professionalize the businesses—thereby driving a demand for talent such as COOs, marketing heads, sales heads and project heads. Core functions like land acquisition and finance will be retained by promoters themselves.

Peripheral markets: Investor interest in Southeast Asia is broadening beyond the traditional focus in Singapore to look at opportunities throughout the region—including markets long on the periphery, such as Vietnam, Indonesia and the Philippines. Funds exploring these markets are recruiting senior real estate investment generalists with broad and long experience throughout the region.

Latin America

Markets are in a wait-and-see mode across Latin America.

Brazil: Institutional-grade office and residential properties in site-constrained São Paulo and Rio de Janeiro have been “priced to perfection.” Other asset categories, especially outside the two largest cities, remain undersupplied across the country, given the number of cities with 1 million or more in population. There is a large supply deficit, for example, in housing for middle and lower income levels.

Large global players are seriously setting strategies around talent and trying to assess the best way to enter the market. Medium and small-sized private equity investors are entertaining ideas to hire—but they are not

yet having serious conversations, and deals and hiring have slowed from 12-18 months ago. Still, Brazilian-based asset managers with real estate experience believe this may be a good time to hire in the real estate market and are engaging in conversations. Overall, there's a lot of talk with little concrete action.

Capital markets financing is available, but insufficient; production costs are rising, and land prices are very high. There have been deep market changes in the last decade, with companies owned by private families giving way to a smaller number of public companies. Limited Class A industrial space is available and rents are hitting the stratosphere across the country. There is also a shortage of labor, particularly engineers.

Without Brazil, opening a Latin American business does not make much financial sense for large global private equity firms. However, some firms have had success keeping to Mexico, which could be a play on its own, given its developed market and economic linkage to the U.S..

Mexico: The Mexican market is in a similar situation to that of Brazil, although it is smaller. The market is not booming; but there are some interesting and large development projects, especially mixed-use and residential, to meet the demands of the expanding middle class with modern amenities, particularly security.

Colombia, Peru and Chile: Colombia is the next Brazil, characterized by severe housing and office shortages combined with compelling demographic drivers. Peru is another "up-and-comer," with an increasing middle class. In Colombia, real estate is still owned primarily by locals.

Colombia and Peru are on the radar screens of the large global investors; but hiring the right person is a challenge, given the size of the markets. Rounding out the Andean region, Chile is the most developed market, even in Latin America, but it is very small. Chile, too, is a market dominated by the local players.

United States

Many investment bankers left the banking business during the downturn; with new growth, banks are finding it difficult to locate experienced talent.

In retail, grocery- anchored strip centers, power centers, and malls that cater to affluent consumers will continue to boast the lowest vacancy rates and the highest rents and therefore, drive hiring across acquisitions, asset management and leasing. Interest in core markets of high street retail (e.g., Fifth Avenue, Rodeo Drive) is robust; outside of centers of affluence and high street, however, U.S. retail is more precarious. However, hiring demands are similar, save for acquisitions professionals; owners are looking for asset managers and leasing professionals, while retailers want more strategic, commercially oriented real estate professionals with a full complement of skills (e.g., site selection, financing, and development).

U.S. exports are high, which stimulates the industrial market. Another trigger of industrial space demand is robust intermodal traffic. High-quality space in strong markets is very tight, leading to increasing rents and asset prices. Developers are building new space as quickly as possible. Given the outlook in this sector, the talent demand is focused on developers to build new product and upgrade existing assets with the amenities that tenants request.

The hiring and talent drivers in the hospitality sector in the U.S. are mostly in response to demand globally—from the Middle East, Latin America and Asia. Hiring Western-trained executives with international experience in areas including acquisitions, development and construction has gained significant traction over the last 12 months.

Given these trends, Heidrick & Struggles continues to be optimistic about hiring, broadly speaking, in 2014 and in the first half we have seen a significant increase in the number of confirmations around the globe without exception. The primary challenge in today's market is the ability to attract talent in a fast moving market, candidates are still cautious and very focused on taking advantage of a favorable deal making environment. ■

Real Estate Practice

Heidrick & Struggles' Real Estate team works globally from start-ups to multi-billion dollar market leaders to minimize leadership risks within senior management and the boardroom. We identify and help to retain and develop top talent across a wide range of markets and real estate specialties, and understand the unique competitive challenges that face the real estate industry. Operating as a global team we are able to leverage our expertise across regions to bring the best talent and cultural fit to bear.

Our market experts operate in Europe, Middle East & Africa, North America, Latin America and Asia Pacific specializing in a diverse array of sectors, including:

- **Banks:** Commercial, Consumer and Investment Banking
- **Investors:** Asset Management, Hedge Funds Infrastructure, Institutional Investors, Private Equity, Private Investors, REITs and Sovereign Wealth
- **Ownership & Development:** Commercial Offices, Hotels, House Builders, Industrial / Logistics, Master-Planned Communities and Retail
- **Corporate:** Real Estate Facilities and Property Management
- **Service Providers:** Brokerage Construction & Project Management, Facilities and Property Management

The team is comprised of eight dedicated consultants with an additional twenty + regional consultants who have expertise in the sector.

Tom Buckett

tbuckett@heidrick.com

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