

Leadership in Real Estate: From 2010 to Today, and Beyond

A survey of industry leaders in Europe highlights their biggest challenges as they deal with the unprecedented change accelerated by the COVID-19 pandemic.





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Executive summary

Real estate is where we live, work, and play. Our industry leaders have the power to influence social interactions, redefine work-life patterns, and help build healthy, vibrant, lasting communities.

The real estate sector is in the midst of an extraordinary transformation: reimagining how buildings are used by putting the customer at the heart of its business model and using foresight and technology to anticipate future trends, behaviors, and the social and environmental values of buildings' occupiers. The transformation is, as one CEO described it, "disruption by everything, everywhere, and all of the time."

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Real estate, often described as a "tanker" and "traditional," is becoming more responsive, agile, and innovative across a spectrum of customer-centric experiences. We are seeing major changes throughout the industry, ranging from interactions with customers to the design and fit-out of healthy buildings that now must take into account their environmental impact on those living or working there to supply chain and modular construction to e-commerce. Changes also encompass real estate operations, digital capabilities, and a trend toward shorter leases.

Real estate has had a tremendous 10 years since 2010. In the wake of the global financial crisis, an enormous amount of capital has

been raised and deployed, and the sector has broadened with the emergence of new real estate asset classes such as property technology (proptech) and alternatives better described as real estate operating businesses.

Increasingly, many real estate firms have become service providers of space and amenities. Consumers now dictate to a larger extent than ever how they want to be served. Some of these real estate operating businesses are dismantling historic models by challenging the structures and terms landlords saw fit to provide. As such, the relationship each real estate business has with the local community in which it operates becomes essential in sustaining this license.

People are now at the sector's core

The biggest change within the real estate sector in the last decade has been the acknowledgment that people are now at the sector's core. People—the employees, the customers, the community—are demanding the attention of real estate leaders today. This was less obvious in 2010. The shareholders' and investors' aspirations are still a priority, but now they tend to be managed better as CEOs prioritize matters differently and pure financial returns are no longer the only focus. Our study shows that company culture and employees have

superseded returns and investment as priorities. The human experience and interaction with the industry, not just the bricks and mortar, are a priority for many leaders today. Though the current need to actively drive growth and returns day to day may tip the scales back temporarily, the longer trends are consistent because they are recognized as truly sustaining growth and profit.

All CEOs are aware that investors will invest only if they can make money. However, even investors, especially large pension funds and some sovereign wealth funds in particular, have a major environmental, social, and corporate governance (ESG) agenda and are supporting this trend. CEOs are being encouraged to create balance, and managing that increasingly delicate balancing act is part of the complexity of being a leader today.

More change ahead

What does the next decade hold? Much more change. Some changes will be bold, involving reimagining and redefining businesses, assets, teams, and projects as values shift, while others will be transitional. A backdrop of unpredictable market cycles and increasingly tense geopolitics including Brexit negotiations will continue to result in an increase of public-to-private deals, capital inflow from new and old investors,

changing firm ownership between generations, and continued M&A. CEOs need to be ready for hostile takeovers and digital-first challengers, and they must remain open to new partnerships, sources of capital, and new ways of doing business—all of which is made especially challenging by the ongoing COVID-19 pandemic.

To help understand this wave of change, I spent more than 150 hours with more than 100 key leaders in real estate, learning about their collective strategic thought process in the sector, weaving together, for the first time, comprehensive insights into one report. The purpose of the survey was to explore how real estate leaders are tackling the myriad challenges 2020 and the new decade will bring: how they support themselves with the right teams by identifying and bringing in the talent needed to reshape their organizations and deliver the innovation and changes required—all while delivering growth and healthy returns.

The crisis has accelerated the challenges

The most obvious and easiest observation to note from our study is that the issues that were keeping real estate leaders awake at night before January 2020 have not been eclipsed by the COVID-19 crisis. In fact, the crisis has accentuated, accelerated, and added to those anxieties.

Our survey shows that CEOs want to make a positive impact in their role for the long-term benefit of the business, the community, and the individual. As such, the role is evolving, and we found that 83% of those surveyed believe the role of the real estate CEO will change over the next 10 years, with 76% seeing a change in the ideal competencies of the CEO who will follow them. This should make the boards of real estate companies pause and reflect on whether succession is strong within the firm and if there is enough diverse talent to choose from. We expect that real estate CEOs of the future will be both from the sector as well as from other connected or tangential sectors that are asset heavy or consumer oriented. To reflect this, we have been spending time assessing the talent both inside and outside the sector.

What “inclusion” means in real estate

In addition, our report shows that in FTSE 350 real estate companies, only three women in executive committee roles have P&L responsibility—a concerning trend, as these financial responsibilities tend to be a common path to CEO and board positions. This again highlights the need to balance gender in real estate businesses to create well-rounded and well-represented firms. One of the most striking data points in this context shows that over half of the real estate leaders we spoke with

believe they lead a business that has an inclusive culture. It’s clear that more investigation and developmental work is needed within the sector to help leaders understand what “inclusive” truly means and where the industry is falling short.

Talent, teams, and culture

We believe that the leaders who will successfully manage their businesses through the next decade are the ones building around themselves a broad support system. This includes the right executive talent and a strong strategy around talent acquisition, development, and promotion, including hiring a strategic CHRO as well as considering how to structure executive rewards to encourage cultural and behavioral shifts, and making the best use of their (hopefully) increasingly diverse boards.

Leaders today are ready to shift gears quickly and efficiently, not in the least when it comes to the skills they need to develop. They are rethinking talent development with the knowledge that younger executives respond well to inclusive cultures, reverse mentoring, and coaching, creating room for fresh perspectives. Greater investment is needed in the development and performance of people within real estate by real estate companies, and they should be unafraid to move away from traditional programs. However, change largely comes from the top. CEOs, the executive committees, and boards have the responsibility to push this agenda.

Increasingly, companies are moving to shared responsibility models, which recognize that a CEO alone does not always have the answers to every major problem. This leadership style encourages a culture of cross-collaboration that is increasingly recognized as a vital foundation for success. Companies that follow this type of model often succeed in creating a culture that is supportive, purpose-driven, and inclusive. In our experience, it is the best way we have seen for leaders in the sector to accelerate their organizations’ current performance and leadership development. It is important, however, to have clearly defined roles in the executive committee and to ensure that there is a real sense of autonomy as much as there is one of collaboration. This, in turn, ensures action is taken and decisions are made, avoiding paralysis by committee discussions.

At this particular moment in time, having real estate knowledge at the helm will prove invaluable, but having that alone will not be enough to outperform expectations.

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Genuine change will take time, but embarking on that journey is a business-critical priority in order to ensure both the resilience and success of any real estate company.

The timer has started.

I hope you find this report and its insights helpful and thought-provoking. Thank you to the senior executives who took the time to discuss these topics with us.



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Methodology

To understand what this evolution means to real estate companies and their leaders, we spoke with more than 100 CEOs and other C-suite executives from property companies, private equity (PE) firms, and fund and investment management companies. Our initial conversations took place in the last quarter of 2019 and first quarter of 2020, and we revisited the key findings with some leaders in July 2020. We found that COVID-19 has acted as an accelerating factor for a number of strategies that were already in process.

The interviews were mostly conducted face-to-face, with a minority by phone. The majority of respondents were based in Europe, with a variety of local, regional, and international remit.

• Leadership roles:

CEO 43%, C-suite 52%, divisional head 3%, partner 1%

• Gender:

91% male, 9% female

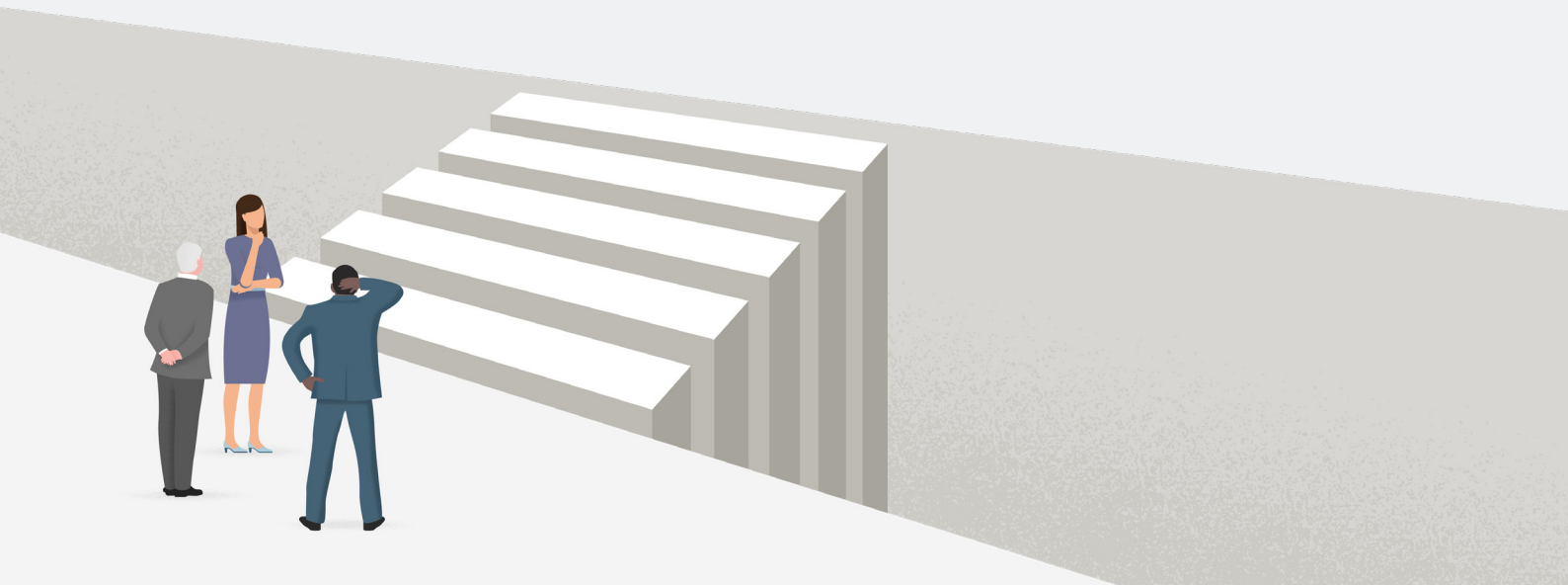
• Geography:

United Kingdom 27%, other European countries 47%, other countries 25% (United States, Canada, Middle East)

• Subsectors:

Fund/investment management 38%, property companies/real estate investment trusts 37%, private equity 22%, others 3%

What keeps real estate CEOs up at night: The top five challenges



The challenges at the forefront of real estate leaders' minds before COVID-19 were already significant, and they were all rooted in the same fundamental question: How do we stay relevant at a moment in time when the scope of change is exponentially amplified by its pace? More recent conversations revealed that

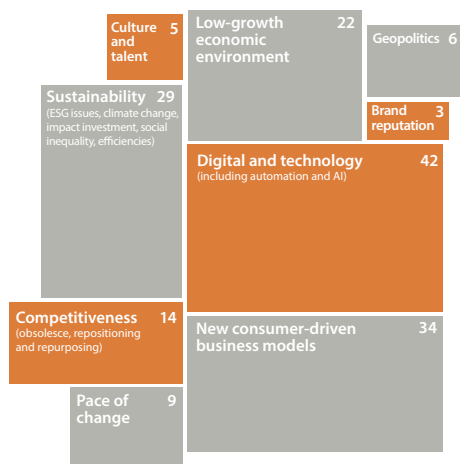
while the pandemic put immense pressures on their businesses in the short term, it also ended up accelerating some of the positive changes businesses were already planning for. Now, as the conversation is turning toward recovery and return to growth, the same challenges stay top of their agenda.

What's keeping real estate CEOs up at night (%)

[Questions] What will be the greatest challenges for the real estate industry in the next decade? And what will be the greatest opportunities for the real estate industry in the next decade? Choose up to five.

Internal External

Challenges



Opportunities



The opportunities for real estate mirror its challenges but run in a different order. Leaders see the new consumer-centric business models as the key opportunity, followed by digital and data optimization, sustainability, urbanization, diversification, and the repositioning and repurposing of assets. Interestingly, while some leaders focused on talent as an opportunity, most did not see retaining and developing staff, diversity and inclusion, or hiring employees from outside the sector as being one of the top five opportunities for the sector, though they ranked it among the top ten.

Source: Heidrick & Struggles' Leadership in Real Estate: From 2010 to Today, and Beyond, 2020, n = 100 real estate senior executives

Challenge

1

Digital and technological disruption

The exponential growth of technological breakthroughs and their impact on companies have been both a threat and an opportunity in most industries over the past decade, creating an environment where digital transformation is a constant work in progress. Many real estate executives are focused on getting the foundations right—for instance, by making sure data is consistent and reliable—before considering what “digital” could mean for their business strategies and therefore what the transformation process should be. A drive for efficiencies was triggered by an increase in competition in the market after the economic crisis, and even more pressure was put on digitization. In addition, connecting with consumers and end users in order to understand their needs and ensure a positive experience increasingly requires a seamless digital interface and an ability to respond to concerns rapidly and thoughtfully. This can entail far-reaching operational and organizational changes.

But leaders can also underestimate the scale of the challenge: only a third of respondents said that their business has been disrupted

by digital-only challengers. Considering the current and future footprint of the sector, this is likely an underestimation.

A frequent concern for CEOs is being a first mover, which can often lead to costly mistakes and a lack of understanding of potential outcomes. Historically, the real estate sector invested very little in technology and digital R&D, compared to other industries. There’s also not much safe space for a fail-fast culture that allows for failure in the process of innovation and learning. The real estate sector has a natural herd mentality. Leaders have found that the easiest way to push ahead with proptech—the use of information technology to help individuals and companies research, buy, sell, and manage real estate—today is to be part of a consortium or partnership, usually with venture capital firms, to share risk and data and future-proof together. Two-thirds of the CEOs we spoke with felt they knew enough about technology to do their jobs today, but as they considered the skills required for CEOs in the future, digital and tech acumen featured relatively high in the rankings and was seen as fundamental, not just a nice-to-have.

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Challenge

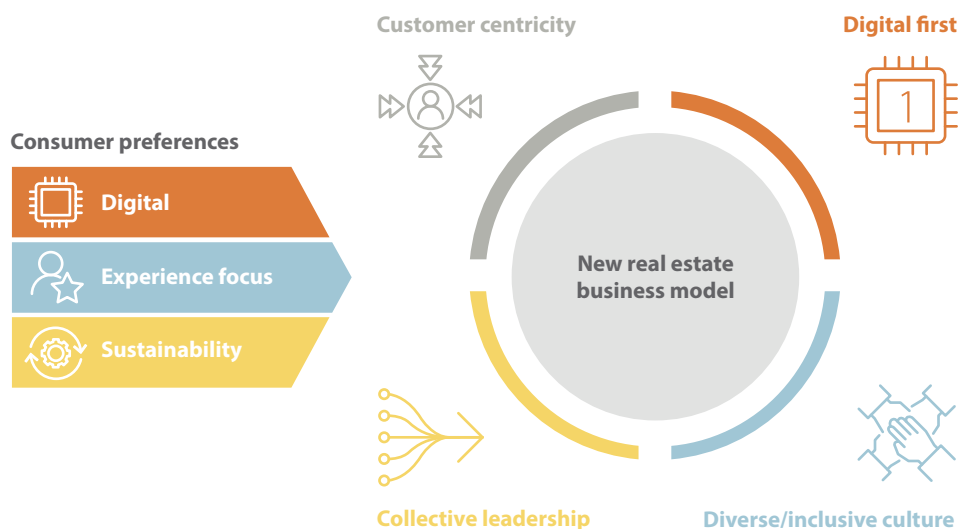
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Changing business models

The real estate sector’s shift into being a service provider of space and amenities means a shift into more customer centricity and a need for different business models. Real estate organizations now run operational businesses—traditionally the domain of retail, consumer, or hospitality sectors. For instance, Forever 21, an American fast-fashion retailer that went bankrupt in September 2019, was bought in February 2020 by a partnership between brand-management company Authentic Brands Group, commercial real estate company Brookfield Property Partners, and Simon Property Group, the largest shopping mall operator in the United States.

The scale of change should not be underestimated, and leaders should seek to learn from other sectors that have made similarly significant model shifts, such as banking, asset management, or retail. The transformation of business models has to be achieved without losing sight of returns and other fundamentals such as how to price real estate and create communities through development.

Consumer preferences shape the new real estate business model



Challenge 3

Sustainability

Some of the more recent additions to stakeholder demands have focused on sustainability, with consumers, occupants, and investors demanding changes in the way buildings are designed, built, and maintained, as well as more transparency on how they approach ESG issues including climate change, carbon footprints, impact investment, and social inequality. Making these changes can threaten a company's usual financial returns in the short term.

The added pressure from investors to hold companies accountable for their ESG activities, fairness, and transparency is also an increased risk to companies' social license to operate. In addition to the approach companies take with regard to their operations, which must be sustainable, they have launched social impact or ESG funds that are managed by real estate fund managers. A number of high-profile companies have pledged a zero-carbon future, and that promise will be difficult to uphold without considering how sustainable their buildings and other assets are—and that extends to the way they build and manage their supply chains.

Challenge 4

Low-growth economic environment

Low returns and interest rates, high pricing, and a challenging regulatory environment make long- and short-term investments difficult and make it harder to generate strong profits. COVID-19 has added to this complexity further by, among other ways, changing the formula for valuation, with yields no longer the only way to measure value. Extra amenities and infrastructure will boost a building's attractiveness to occupants. Landlords will need to spend more on upgrading assets, meaning an increase in capital and operating expenditures. This will put extra pressure on landlords at a time when ROI is already tough.

Challenge 5

Competitiveness

Since the beginning of the COVID-19 pandemic, there has been much talk about the perceived obsolescence of assets and the need to reposition or repurpose retail, hotels, and food and beverage, for example. Now, real estate leaders' attention has turned toward the future of offices and their redesign, ghost kitchens, and dark stores. But our survey shows that these trends are not new, and the change in consumer behaviors precedes the pandemic: digital and online shopping, a focus on well-being, changing demographics, urbanization, logistics (last-mile) space, multifamily, co-working, and serviced apartments are all playing their part.

Challenges inextricably linked

These top five challenges—digital and technological disruption, changing business models, sustainability, a low-growth economic environment, and competitiveness—for the real estate sector are inextricably linked to each other, largely by stakeholder demands and consumer behaviors as well as the need to be more efficient and competitive. For example, leaders must work to reposition assets as digital products, monetize data, and integrate artificial intelligence (AI) into systems and building infrastructure to help them create more efficient and sustainable environments.

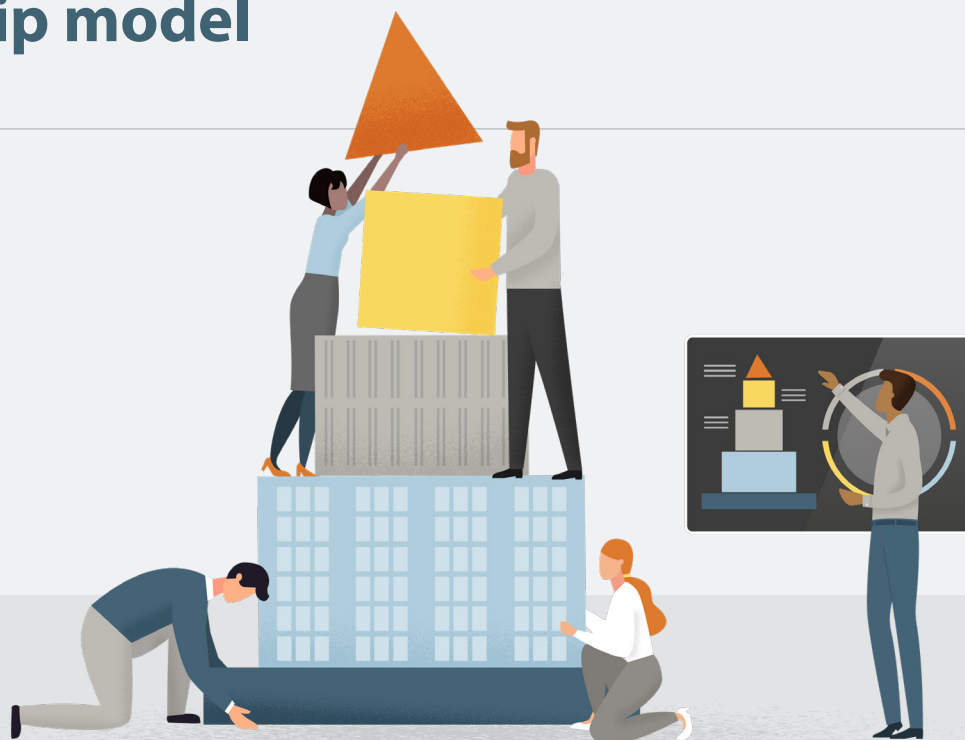
COVID-19's impact on real estate

As in many other sectors, the COVID-19 pandemic hit hard, accelerated trends, and forced quicker decision making. One CEO we spoke with said, "Every month since the start of the crisis, change has accelerated within the organization at a rate equivalent to a year's change previously. People changed their working patterns, spent more time with family, and considered their purpose."

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The values and purpose of a real estate business are paramount for the industry culture, employees, and customers, and the trust among those parties needs to grow. Across industries, the existence of a purpose-led culture in business is more important than ever to many stakeholders, and leaders who show compassion and humanity stand out.

Building blocks for a new real estate leadership model



The complexities of transforming into a customer-centric business make it necessary for real estate businesses to take a holistic approach. What does this entail?



Developing a collective leadership model where CEOs bring their teams closer to decision making and setting priorities



Building teams that complement their own skills and have a customer-focused attitude



Building a purposeful, inclusive, and digitally ready culture

Boards must be ready to support and embrace this transformation journey.



An evolving CEO skill set: Stepping up to lead with authenticity, compassion, and purpose

As sector leaders seek to meet new and old challenges, they are seeing their role evolve. We explored the skills they believe they have needed and will need and how they can best develop them. Rewinding a decade or so, chief executives were steeped in day-to-day P&L responsibilities, had accountability almost exclusively to shareholders, and would not have faced many questions about sustainability, customer-centric operations, data analytics, or diversity and inclusion (D&I). Indeed, the top three skills required in the wake of the global financial crisis were managing risk, driving returns, and grit, according to the executives we surveyed. Leading and managing people was a strong second choice for many.

The key traits cited as most important to leading a real estate company are digital transformation fluency, strategic skills, and leading and managing people.

Today, the key traits cited as most important to leading a real estate company, assuming financial skills were a given, are digital transformation fluency, strategic skills, and leading and managing people.

Tellingly, operational acumen was an overwhelming second choice for two-thirds of respondents, and the combination of these skills underline that CEOs' priority is managing complex operations that support the shift toward a customer-centric, digitally driven business model.

Customer focus and empathy ahead

Eighty-three percent of the real estate leaders we spoke with said that the CEO role will change over the next 10 years, and 76% see a change in the ideal competency of the person who will follow them. When we explored a bit deeper into what that meant, the predominant word was "more," or some variation of it: more forward looking, better attuned to how society is changing, better equipped to manage change, more culturally aware, closer to employees and customers. More inclusive. Bolder. All this layered on top of the traditional job.

Notably, in the minds of the survey participants, digital transformation is a finite process, which is coupled with the need for operational acumen that leaders will require to shift their business into the consumer-centric business model and adopt an operator mindset. By 2030, sector leaders said that strategy and leading and managing people will be the most important, while digital and technology and

operational acumen dropped in their rankings (because most assumed that digital would be integral to how their firms operate by then).

The evolution of the CEO role and its required skill set from 2010 to 2030 increasingly demand the ability to continuously respond to changes and pivot toward different goals and accountabilities. One CEO noted the importance of being “open to the outcome, but not attached to it.” The universal expectations for corporate leaders have recently been reassessed across all sectors, along with what it means to lead and manage people in a holistic way, with humanity and integrity. Leaders have to be able to articulate their company’s purpose and vision and set a clear direction, as well as demonstrate reciprocity—the ability to listen to others’ perspectives as well as share their own ideas. They must also be able to challenge investors and other shareholders and show conviction for the journey they are leading, rather than being overly swayed by those who invest in their companies but don’t share their vision. This will require courage and the vital ability to connect with people both inside and outside the business. (A separate and ongoing study by Heidrick & Struggles across sectors looks at what leadership traits were most associated with digital acceleration and strong financial performance; empathy and other softer traits stand out as differentiators for high-performing organizations.)

This is a striking change from anything we have seen before in the industry, but the leaders we

surveyed consistently regarded empathy as a must-have rather than a nice-to-have. One CEO said, “Leadership is often thought about in the Churchillian way, but his style would not have worked well in business today. Today, listening is vital as a leader, as is being open to challenge and prepared to change your mind. Greater transparency is needed generally.”

CEOs are having to engage in a myriad of socioeconomic issues that affect employees and customers alike—not only COVID-19 but also systemic racism, protests against which have seen a global resurgence since May 2020. There is now a broad social understanding that CEOs need to take a stand on important issues, and the only way that what they say will have any impact is for them to dig deep into their own purpose and beliefs and find an authentic voice that will leave no doubt about their integrity and personal and professional convictions. As with greenwashing—where misleading or exaggerated information is used to convince people that products are sustainable—words are not enough. Leaders will be pressed to make substantive changes and will be held accountable.

Becoming comfortable with fluidity and uncertainty and adapting strategy to new challenges will be vital. It’s clear that companies increasingly need to plan for multiple futures and take into consideration a number of variables that include the shape of the economic recovery, urbanization, demographic changes, technological disruption, and trends more

specific to the sector, such as commuting and travel disruptions, leasing, partnership constructs, the changing requirements of customers, the use or repurposing of buildings, the future of physical retail, and liquidity and financing issues, among others. As one CEO summed it up: “Keep the mission, but it needs to be flexible.”

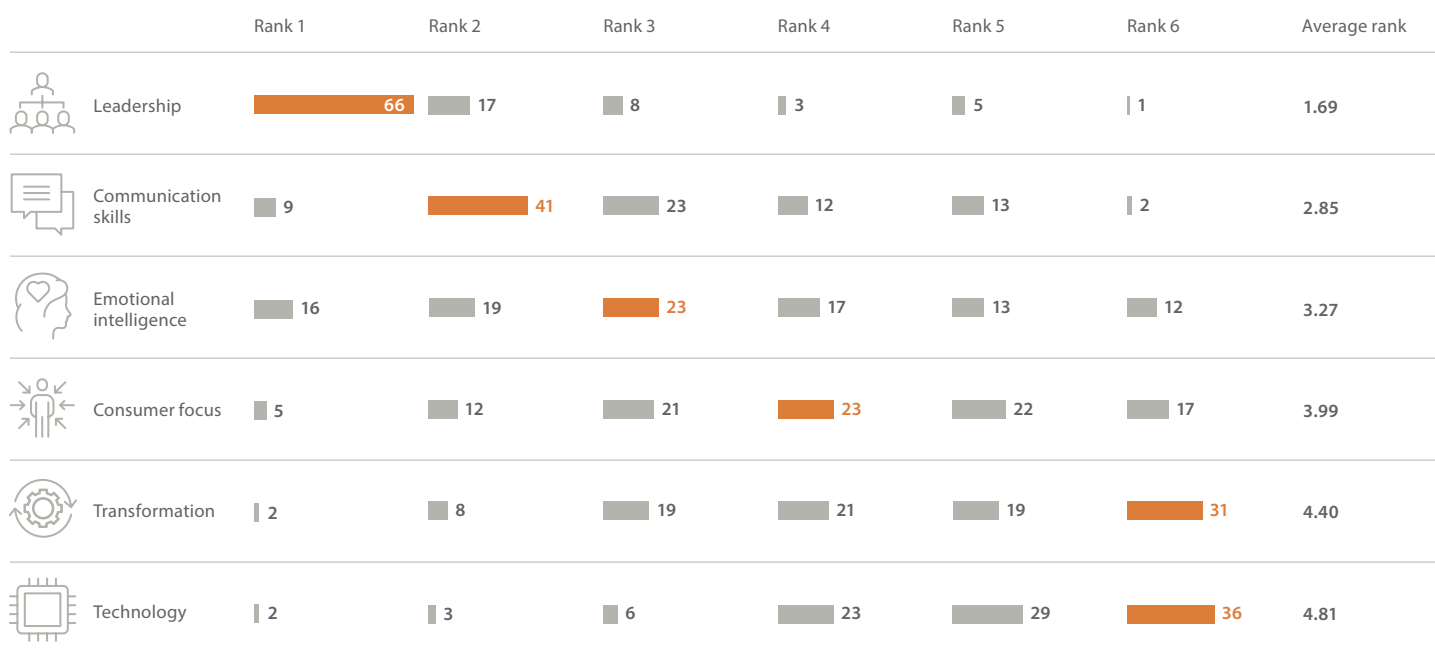
How important is real estate knowledge?

On the whole, leaders in real estate have some significant differences from those in other sectors. Based on our experience and research, we know that leaders in the real estate industry are more passionate about their sector and that their identities are wrapped up in their work in ways that are more pronounced than leaders in many other sectors. Their tenures are also longer compared with those of leaders in many other sectors, and many keep working one way or another for years after retirement. That could be because of the tangibility of the asset class, or perhaps family influences—it’s common for succeeding generations to join the business—as well as the variety of opportunities within the sector, from functional roles to specializations in asset classes or geographies. Yet, in that context, successful real estate leaders have, like those in other industries, become multifaceted, adding new qualities—empathy, emotional intelligence, courage, authenticity—to their traditional responsibilities.

It’s also important to mention that each CEO will have his or her own leadership style, built on his or her background and adapted to his or her

The traits real estate CEOs need today (%)

[Question] Assuming financial skills are a given, please prioritize the following traits relevant for a real estate CEO today: communication skills, consumer focus, emotional intelligence, leadership, technology, and transformation.



Source: Heidrick & Struggles' *Leadership in Real Estate: From 2010 to Today, and Beyond*, 2020, n = 89 real estate senior executives

organizational context. CEOs, just like everyone else in the organization, need to bring in their unique qualities and understand how to use their strengths to complement those of their team.

When exploring the relevance of sector experience, more than half the respondents indicated that, in their view, leadership is not necessarily about real estate knowledge. “It’s about hiring the right people, setting culture, setting strategy, articulating strategy, and communicating with investors,” one CEO explained. “CEOs don’t need to have real estate experience to do this. As a CEO, you can surround yourself with all the experience you need.”

The opposite view is rooted in the belief that “in order to radically transform something, particularly at a time of intense disruption, you have to know what you are talking about.” Indeed, bringing in a CEO from a different sector has its advantages—new perspectives and experiences—and its challenges—getting up to speed with the intricacies of the sector while simultaneously driving up the company’s profits. But it’s becoming more obvious that companies transitioning their business and operational models to a more customer-centric approach need to have outside-sector experience to stay competitive. A few companies are getting ahead of the curve through strong succession planning, mapping the roles and skills they need and identifying early the people they want to tap and hire into more junior roles that will put them on track for leadership roles in the next five years. They then line up a strong development program that includes assessments, top-team performance programs, coaching, and leadership training.

Real estate leaders’ skill set evolution (%)

[Questions] What were the top two skills required from leaders 10 years ago, during the economic downturn in 2008–2009? What about today, and 10 years from now?



Source: Heidrick & Struggles’ Leadership in Real Estate: From 2010 to Today, and Beyond, 2020, n = 98 real estate senior executives

What leadership means for real estate leaders



Source: Heidrick & Struggles’ Leadership in Real Estate: From 2010 to Today, and Beyond, 2020, n = 100 real estate senior executives

When we asked the survey participants if today's real estate CEO should have a real estate background, many of the answers reflected a strong subsector variation. Leaders from property companies are the most comfortable with bringing people in from other sectors, presumably because those companies are becoming more operational and need to be closer to their customers than their private equity and investment counterparts. Those in investment believed it was important that their CEOs understood the investment process from the grassroots up in order to have credibility with stakeholders such as employees and investors.

Having a CEO today who understands the real estate sector gives him or her an advantage compared to someone who is new to the industry. More often than not, businesses cannot afford the luxury of granting an incoming CEO a 12- to 24-month grace period to learn about the sector, and most transformational projects, including digital, have multiple sector-specific practical implications that require real estate acumen. This could change for some companies as they find their way back to growth. But between now and then, companies should focus on promoting from within and assess the strength of their CFO, COO, or another internal candidate who could be ready to step into the CEO position. They should also look at bolstering or hiring their CEOs alongside executive and board teams that bring to the table diversified experiences from both inside and outside the sector. The blend between sector and non-sector experience is important, and both are required. It, in turn, will change the culture of the business and the way real estate operates as a sector.

Setting new priorities

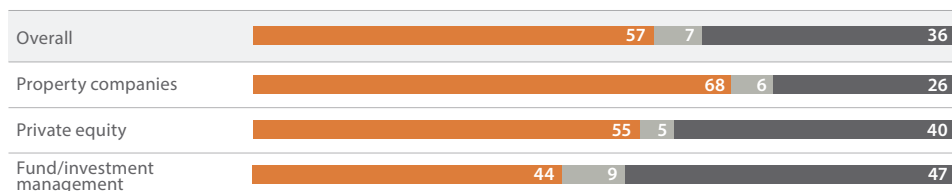
Beyond CEOs' professional career and leadership traits, the priorities they ultimately set will, naturally, dictate the extent of their success. As part of our survey, we asked leaders to choose between stakeholders or shareholders as their top priority. Many built in the caveat that there is no longer a clear-cut distinction between the two. But still, looking at the data, it was apparent that leaders with a longer tenure more often take a broader view of to whom their companies are accountable.

Culture and employees supersede return and investments.

The necessity of previous real estate experience (%)

[Question] Would you agree or disagree with the statement, "A CEO does not need previous real estate experience to be effective in our sector"?

Unnecessary for success Unsure Necessary for success



Source: Heidrick & Struggles' *Leadership in Real Estate: From 2010 to Today, and Beyond*, 2020, n = 89 real estate senior executives

Though more leaders said shareholders are their priority, 42% thought it likely that this priority will change in the next 10 years and lean instead toward stakeholders. One CEO said, "I am genuinely not sure you can distinguish [stakeholders and shareholders] anymore. We still need to be disciplined on capital value—and that implies shareholder value—but the way you focus on stakeholders will change." One clear example of converging values is the way investors and wider communities alike have asked companies to integrate ESG issues into the way they measure corporate value and make strategic decisions.

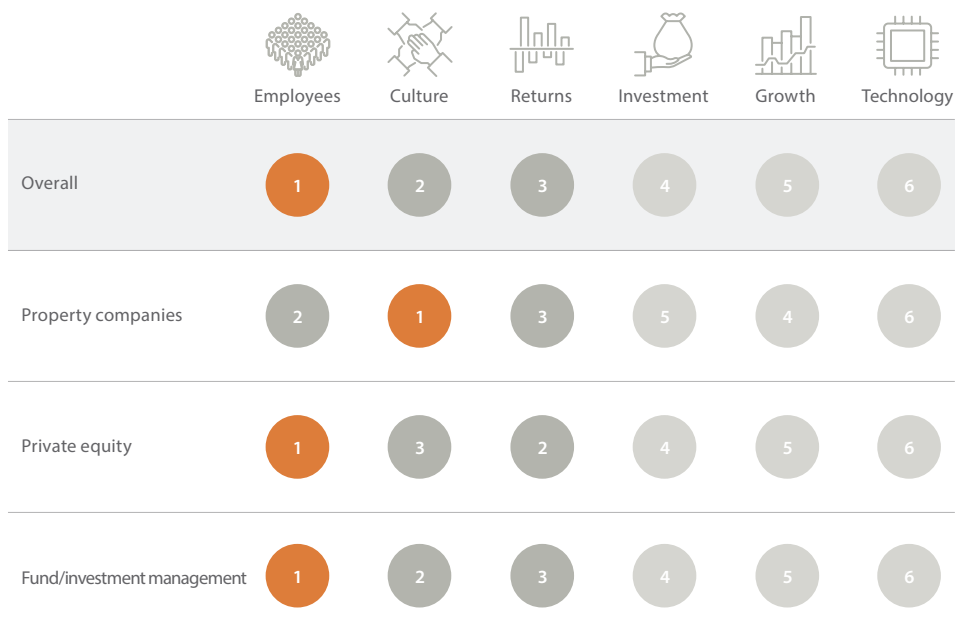
A second way in which leaders' priorities have shifted is that culture and employees supersede return and investments. Similar conversations we

had 10 years ago were pointed in the opposite direction: investment and growth were the focus, and employees and culture were lower down the list of priorities for many leaders in the sector because those leaders were focused on making deals happen. The views of current CEOs show some variation by subsector; for instance, unsurprisingly, real estate private equity leaders placed placed returns as their second priority.

Most leaders put technology in last place, though most also offered the caveat that all topics are important and that technology and digital were nonetheless high on the agenda for them. Some even commented that they thought digital and technology were intrinsic to each business issue noted, rather than a stand-alone category.

Real estate leaders' priorities

[Question] How do you prioritize the following topics in your business today? (1 being the highest, 6 the lowest)



Source: Heidrick & Struggles' *Leadership in Real Estate: From 2010 to Today, and Beyond*, 2020, n = 87 real estate senior executives



Building leadership teams

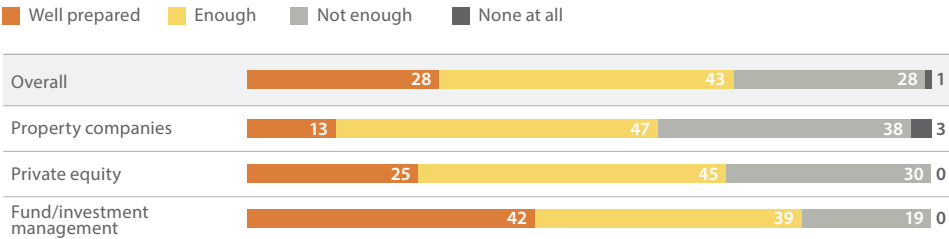
Recovery and potential restructuring will require different skill sets than those needed in a time of smooth economic growth, and leaders will have multiple wildly different scenarios to plan for. Though CEOs set the tone of an organization, they still need the right teams in place to navigate the company back to growth. One of the most difficult drivers to master, and critical in building competitive advantage, according to Heidrick & Struggles research on accelerating performance, is winning capabilities—making sure companies have the right people in the right roles, with an eye to the future.¹ The same research shows that building winning capabilities is central to long-term performance; given the degree of change in real estate, building winning capabilities will likely be even harder and even more crucial for real estate leaders than for leaders in many other sectors.

Digging deeper in succession planning

The complex profile of the new CEO, the changing real estate business model, and the accelerated pace of change mean that leadership succession planning cannot be confined to just the executive committee or

How prepared are real estate companies for succession planning? (%)

[Question] How much emphasis is applied to succession planning for key leadership roles within your organization?



Source: Heidrick & Struggles' *Leadership in Real Estate: From 2010 to Today, and Beyond*, 2020, n = 87 real estate senior executives

board; it needs to be airtight a few levels down in the organizational hierarchy. When it comes to succession planning in real estate for key leadership roles, the majority of respondents felt well prepared or prepared enough. But there are notable differences among subsectors: fund and investment management leaders more often said they are well prepared for succession planning, and property company leaders more often said they are not prepared enough. This is perhaps reflected in the increased number of external hires that we have seen listed real estate companies in particular bring on during 2019–2020. Clearly, this is an area to which those leaders and boards should pay immediate attention.

The complex profile of the new CEO, the changing real estate business model, and the accelerated pace of change mean that leadership succession planning cannot be confined to just the executive committee or board; it needs to be airtight a few levels down in the organizational hierarchy.



¹ Alice Breeden, Becky Hogan, and TA Mitchell, “Bringing your organization up to speed,” Heidrick & Struggles, September 12, 2019, heidrick.com.

For many organizations, the ability to appoint leaders internally is a mark of success, and this is reflected in our survey: for 53% of our respondents, putting an emphasis on development to promote from within is a top priority, and 32% think they put enough focus on it. Yet, as we look at the market today, a number of CEO and C-suite roles have been filled externally. An external search is often necessary because internal teams and talent are kept lean. With this in mind, leaders need to keep a watchful eye on the talent outside their business. To that end, many firms regularly conduct talent mapping exercises across the industry. Planning for the next executive team should be one of the first tasks any CEO addresses when assuming his or her role, including a provision for emergency succession.²

Building the right top team now

The stronger and more diverse the executive team is, the more the CEO can achieve by leveraging the team's various capabilities and perspectives. Given the new world, it's important that leadership teams have expansive thinking and that the top team brings in different sets of experiences to support the business. Changing business models that factor in new technologies, ESG considerations, and workforce upskilling require significant investments, and CFOs also will have to adapt in the same way as they had to with the emergence of digital. The role of the CFO may

even adapt faster than that of the CEO because the CFO will be responsible for prioritizing and allocating funds internally for certain initiatives.

As noted earlier, engaging leaders from outside the sector plays an important role because those people complement and challenge the skill sets and backgrounds of people with long-term careers in real estate. The new dynamics will create more robust decision-making mechanisms. In five years' time, we expect the people around the top tables will have blended experiences and will be able to draw from a strong leadership pipeline. This next generation of leaders will develop the talent in their own teams, and as the cycle continues, the overall outcome will be a more diverse workforce and hybrid talent with strong real estate acumen and skill sets that cover operations, technology, and customer centricity. In addition, building teams of people from both inside and outside real estate, mixing in the old with the new, will go a long way toward building a culture that engenders inclusivity and equity. But this will prove successful only if everyone is clear on roles and responsibilities and terms of engagement and the CEO can make the team composition support efficiency. In order to choose the right executive talent and build a strong strategy around talent acquisition, development, and promotion, real estate companies need to hire a strategic CHRO, as well as consider how to structure executive rewards to encourage cultural and behavioral shifts and make the best use of their potentially increasingly diverse boards.

Leaders of the future

Further down the organization, the shift toward customer centricity requires an employee base that understands the customers' needs and feels empowered to create the experience they are looking for. This will require mindset changes, and future leaders need to be able to bring fresh perspectives and ideas and challenge the status quo. The best leaders already seek out the employees who understand the customer and speak up, and they create cultures where those employees are trusted and given autonomy and room to thrive. Upskilling the current workforce and putting in place development programs are essential. For instance, all people in an organization need to be able to operate in a human-machine hybrid working environment, as 47% of leaders are anticipating leveraging AI applications, and 8% already do so. This has been a huge shift in the past five years.

Seventy-three percent of our respondents said that their leadership teams were digitally aware, and 73% also think their technology leaders are business oriented and commercially savvy. However, only 32% think their boards have the right digital expertise to oversee the kind of digital transformation required today. Interestingly, this aligns with previous Heidrick & Struggles cross-sectoral research about future board composition in Europe.³ While board members said the increased pace of digitization is the greatest challenge facing their companies,

² Lee Hanson and John S. Wood, "Considerations for emergency CEO successions," Heidrick & Struggles, April 13, 2020, heidrick.com.

³ Jamie Page, *Board of the Future: Moving toward a more diverse, more in tune European board*, Heidrick & Struggles, March 2, 2020, heidrick.com.

In five years' time, we expect the people around the top tables will have blended experiences and will be able to draw from a strong leadership pipeline. This next generation of leaders will develop the talent in their own teams, and as the cycle continues, the overall outcome will be a more diverse workforce and hybrid talent with strong real estate acumen and skill sets that cover operations, technology, and customer centricity.



they said their role is to influence the digital transformation rather than lead it, which they see as a responsibility of the executive team.

At all levels, a successful talent strategy requires the ability to attract the right people for critical roles. Seventy-six percent of surveyed participants see their company as being “very attractive” to talent or “above average,” especially with regard to talent in their own sector. The reasons executives cite for company attractiveness vary, from having a strong purpose to taking a long-term view with a good graduate program, regular communications, transparency, providing clear paths to personal growth, high employee engagement, and good compensation packages.

This perception of attractiveness was surprising because it included external talent and didn’t align with many outsiders’ views of the real estate industry. Real estate is so often portrayed negatively by the media as overly focused on profit. More outward communication, standing by the organizational purpose, and building stronger community engagement will help shift that perception.



Shaping a thriving culture: Purposeful, inclusive, and digitally ready

There is no doubt that a strong company culture is an inclusive one. But unless that inclusion is based on diversity, it can also sometimes make companies more prone to groupthink and put pressure on team members to adhere strictly to the company narrative. This can make it harder for teams to integrate the fresh perspectives they badly need. It takes a confident leader to invite and encourage people to challenge their assumptions, but if that openness is driven from the top, a culture of continuous feedback loops becomes a self-reinforcing feature of a culturally strong organization, attracting people who value such an environment. It also creates a culture where trying and failing and adapting become a habit, leading to more fearless and consistent innovation and agility. One CEO described the goal as “creating the right environment for people in your business to perform to their full potential.”

D&I in real estate today

Fifty-two percent of executives told us their companies have “very inclusive” cultures. This is likely related to some extent to the lack of diversity in today’s real estate companies.

Other Heidrick & Struggles research shows that most companies are in the early stages of building fully inclusive cultures,⁴ and

⁴ Krishnan Rajagopalan and Lyndon A. Taylor, *Meeting the Inclusion Imperative: How leaders can link diversity, inclusion, and accelerated performance*, Heidrick & Struggles, April 30, 2020, heidrick.com.

indeed, in our experience, the real estate world generally cannot be described as fully inclusive. Executives’ confidence seems overly optimistic and likely comes from having a different definition of “inclusion” than our other research. That research identified best-in-class companies, those we called the D&I Vanguard, that have defined and communicated their approach to D&I, explained why it’s strategically important, included specific D&I goals in their business strategy, and are assessing their progress toward D&I goals specifically by its contributions to financial performance.

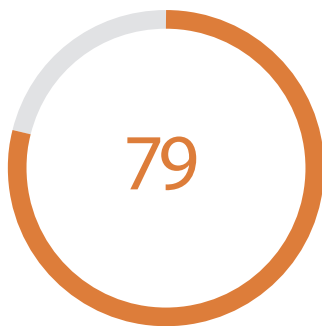
Fifty-two percent of executives told us their companies have “very inclusive” cultures. This is likely related to some extent to the lack of diversity in today’s real estate companies.

While the vast majority of real estate executives see D&I as of high strategic importance, only a quarter said their organizations always measure, track, and hold their colleagues accountable for keeping D&I as a strategic priority. The lack of measurement and tracking of data means that companies will find it impossible to monitor progress and identify what needs to be addressed, whether that’s a lack of diversity, a lack of inclusion, or both.

The relative strategic importance of D&I in real estate (%)

[Questions] To what extent do you see the D&I agenda as being of strategic importance? (1 being the highest, 6 being the lowest) Does your organization measure, track, and hold colleagues accountable for D&I to ensure that this is a strategic priority? (1 being always, 6 being never)

Seventy-nine percent of leaders say that D&I is strategically important for their company...



...but only 25% say they always measure, track, and hold colleagues accountable for keeping D&I as a strategic priority.



Source: Heidrick & Struggles' *Leadership in Real Estate: From 2010 to Today, and Beyond*, 2020, n = 90 real estate senior executives

One of the more interesting observations of the response to the COVID-19 pandemic was that, so far, countries led by women seem to have managed the crisis better.⁵ When considering gender representation overall, the real estate sector is lagging somewhat in bringing women into leadership positions. In the 23 FTSE 350 real estate companies, 35% of their board positions are currently filled by women, which is better than the 30% index average, and a significant improvement from the 23% of positions held by women in 2018.

In stark contrast, women are still hard to find in executive roles: they hold only 12% of executive team roles. And half the companies listed in the FTSE 350 have no women executives. Of the women in executive positions, only three of all these roles have P&L responsibilities—and, across industries, that remains the most common path to the CEO role.⁶ If companies want to increase the gender representation in their leadership teams, they must look at the way they develop women's careers earlier on in the succession planning process.

On race and ethnicity, the sector has even further to go, as do most other industries. Still, the Black Lives Matter movement has already prompted a series of small and large changes in how companies hire and promote people from different races and ethnicities in their organizations. The Royal Institution of Chartered Surveyors, DiverseCity surveyors, and Real Estate Balance have been calling for companies to report ethnic and racial pay gaps, trying to boost the mere 1.2% of Black, Asian, and ethnic minorities in the United Kingdom's built sector, for instance.

Building a digital culture in real estate

Another key element of strong cultures today is digital readiness, as real estate leaders' assessment of the skill sets they themselves need indicates. Indeed, leaders have high levels of confidence and great expectations when it comes to their organizations' digital prowess, but also indicated that they have not been able to prepare their organizations well enough for the deep-rooted and long-term

changes that successful digital transformations require.⁷ The remote-working environment that most real estate companies (like so many others) were obliged to accommodate for the majority of their employees almost overnight was, on the whole, successful, but this is not what we mean by digital prowess. Most real estate businesses were able to hold the fort remotely but were not able to advance their digital transformation plans, because the technology wasn't in place to ensure businesses could continue to accelerate.

Creating a strong digital culture requires leaders to commit to purposeful leadership, support personal change, promote broad engagement in the organization, and ensure sustainability in the long term.⁸ As companies progress through their digital transformations, their focus will shift more and more from technology to people, in effect making digitally driven change one central element of how cultures thrive.

5 "Countries with female leaders suffer six times fewer COVID-19 deaths," Trinity College Dublin, May 29, 2020, tcd.ie.

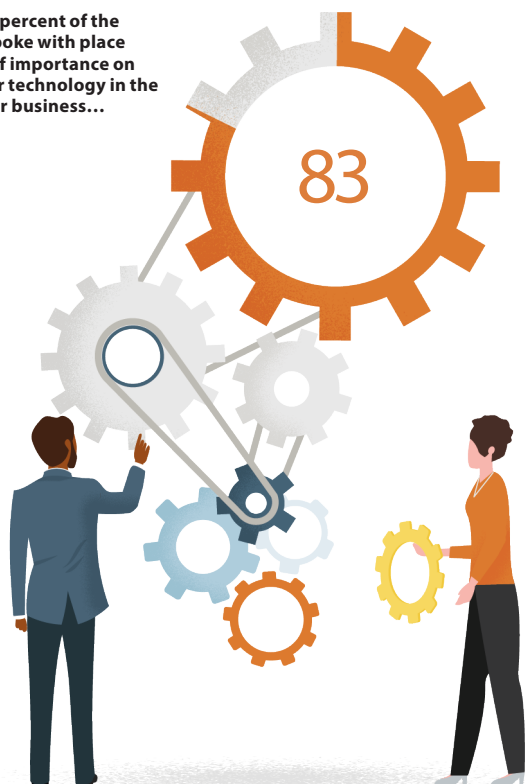
6 Heidrick & Struggles, *Route to the Top 2019*, January 9, 2020, heidrick.com.

7 Shaloo Kulkarni, Scott Snyder, and Eric Skoritowski, "Achieving digital (re)acceleration," Heidrick & Struggles, May 14, 2020, heidrick.com.

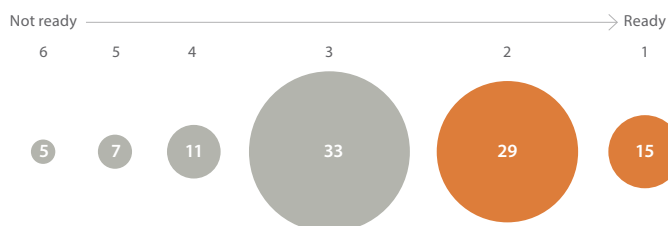
8 Chad Carr and Scott Snyder, "Building a digital culture," Heidrick & Struggles, June 4, 2019, heidrick.com.

Digital transformation in real estate (%)

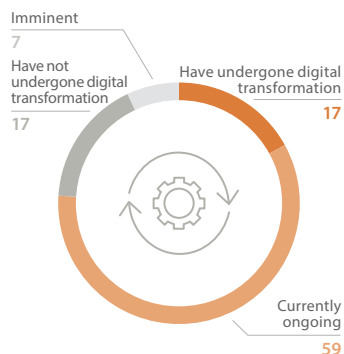
Eighty-three percent of the leaders we spoke with place a high level of importance on digital and/or technology in the future of their business...



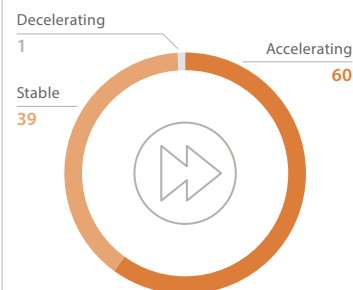
...but still, less than half had high levels of cultural readiness for the process...



...and many companies have undergone or are currently undergoing digital transformations.



Still, a surprising majority of leaders would rate their companies as digitally accelerating or stable compared to their competitive set.



Source: Heidrick & Struggles' *Leadership in Real Estate: From 2010 to Today, and Beyond*, 2020, n = 90 real estate senior executives

Conclusion



Opportunities abound as real estate changes. In parts of the sector, there is enormous opportunity to create customer-centric experiences that are memorable and different and to transform the tenuous landlord-tenant relationship to one akin to a service provider. In the architecture, engineering, and construction industry, there is an obvious case for getting ahead of future environmental regulations by investing in sustainable buildings and supply chains driven by technology and offsite manufacturing. But it seems only a small number of real estate companies have taken action. Now is the time to be more innovative, in every way.

Perhaps the biggest opportunity for the real estate sector's leaders right now is to take a step back and consider how to reposition their companies for a return to growth. The rules of engagement have been changing over the past decade, and now COVID-19 has accelerated the rate of change. New skills and ways of thinking will be required, which most of the executives we surveyed for this report recognized. That said, many companies are failing to grow great leaders. That may be because many have continued to see leadership development through a traditional—now outdated—lens and with a focus particularly on understanding

business as a series of transactions, which results in strong deal makers but not always strong leaders. CEOs must invest more in leadership training and development of their people, performance assessments, and a constructive feedback culture.

Building a new future with boldness and collaboration

The right leaders to take the sector forward will be those who show vision and are bold. They will also demonstrate great operational acumen, drive returns, and excel at leading people through change of all kinds, including digital transformations. To find their path, real estate CEOs need to reflect on how far they are willing to go to break old patterns and established traditions in order to bring into their organization a diverse workforce and actually utilize their teams' perspectives. The right leaders will recognize that they do not hold all the answers and will be comfortable with that, because they will have the ability to create a structure and a culture in which their people can innovate and thrive and play out their passions. And good leaders need to make a sincere effort to broaden their networks externally in other sectors and disciplines and seek as much nuanced advice as possible.

Now is the time to be more innovative, in every way.

Leveraging purpose

CEOs must pay attention to what has meaning and purpose, which will, in turn, lead to successful outcomes, including revenues. Good brands are measured based on their actions. They are being held accountable to upholding their declared purpose and pledges. Superficiality and empty marketing rhetoric will be penalized, which has been amplified during COVID-19, in particular. CEOs in the sector are taking a hard look at their businesses and the way they operate today to make sure their actions consistently align with their statements.

Tracking change

The question now is, which changes in the broader economy will stick and which will revert to the pre-crisis normal? Beyond the changes to firms themselves, it remains to be seen, for example, whether the enthusiastic increase in online shopping will continue and further increase the pressure on physical retail locations, or if suburban offices will become obsolete and be replaced with a now tried-and-tested working-from-home alternative, while the main company headquarters is redesigned. The way leaders approach these issues will redefine how we live and work. That is why it is so important for leaders to investigate

these trends and stay close to stakeholders to find those answers. One CEO summed up his thinking as, “The journey is important, not just the outcomes, as there is no end stage.”

A call to action

The next decade in real estate is potentially the most exciting one of this century; a traditional sector is coming of age. Real estate leaders will need determination and courage, especially in a recession. This is a time of great challenge but also of transformative change and great learning and excitement.

It is a pleasure to have a voice and play a small part on that journey.

As one CEO put it, “Leadership is many things, including [creating] the right environment for success [and building] a strong team around you that you enable to strive for and achieve a common set of goals. It is the ability to listen and take on multiple sources of information and crystallize those insights into a clear and understandable strategy that is understood and supported by all stakeholders. Ultimately, it requires the ability to take tough and decisive decisions when necessary and to lead by example—not only saying the right things but doing the right things.”

The next decade in real estate is potentially the most exciting one of this century; a traditional sector is coming of age.



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Acknowledgments

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