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Rutherford International ESG

Leasing – Great Expectations / Questionable Results

By Forbes J. Rutherford, President

Business process within the commercial real estate leasing profession – at both the owner and broker level is undergoing a state of structural change; this flux is an early indication of what the industry will face in general terms over the next eight years.



Maintaining Competitive Advantage Through Pro-active Human Resource Planning & Compensation Strategies

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Critical HR Challenges Facing Canada's Real Estate Industry 2002- 2010

INTRODUCTION

Rutherford International ESG distributed an opinion piece entitled “Critical Real Estate HR Challenges 2002 – 2010” to a number of senior industry executives. The complete text of this article may be downloaded from the North American Real Estate Review section of www.rematrix.com. The article identified four human resource issues, which commercial real estate owners and managers will need to address now and over the balance of the decade. Abbreviations of the points made in the article were:

1. **Compensation:** The link between incentive pay and performance is weak and not necessarily connected to measurements reflecting long-term shareholder value creation,
2. **Education:** Companies have long recognized the importance of staff development and education, but few have placed sufficient funds at the disposal of HR departments or business unit managers to adequately fund internal or external programs,
3. **Knowledge Retention:** Current workforce stability is more the result of industry compression than workforce contentment. The medium term (five years) will be less stable, as experienced managers and executives begin to “gear back,” however the predicted shortages will not be measured in the loss of human assets but more so in the loss of knowledge assets.
4. **Business process** within the commercial leasing profession – at both the owner and broker level is undergoing a state of structural change; this flux is an early indication of what the industry will face in general terms over the next eight years.

The following is representative of their views on state of commercial leasing; our observation of shifting organizational trends, and our expectation for the future.

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Changes In Leasing

Owners seem to be universally disappointed with the quality of their sales and leasing departments – many in-house departments have forsaken active end-user marketing in deference to broker networking. This concern by first tier executives compounds the structural shift the leasing function is experiencing at both the owner and broker level within our industry.

In-House Leasing Departments:

Owners are becoming increasingly frustrated with the selling skills and underlying character traits of their leasing representatives, however there are multiple causes for this frustration:

1. Twelve years of under-funding skills development compounded by a net loss of talent and limited success attracting new recruits from post secondary and graduate schools over the same period of time has contributed to a relatively shallow pool of experienced talent.
2. Many in-house leasing departments have rationalized their primary role as being negotiators and broker network marketers. They justify this preference for taking “the easy path” with arguments based on “sales force leverage;” and/or a concern that if they become proactive sourcing tenants the brokerage community will cut them off. However, senior brokerage executives are of the opinion that owner-leasing departments have become too dependent on the brokerage community for deal flow.
3. “*I wish I could clone my VP Leasing*” was one CEO’s refrain. Perhaps his VP’s skill sets are more transaction oriented – excellent interpersonal skills with brokers or tenants, but a relatively poor leader. In most instances, it’s the responsibility of the VP to lead his staff to perform effectively and help his direct reports grow in competence both in terms of skills and management strengths? To improve selling skills, senior officers will need to assess their management’s capability to implement an active coaching policy. Your VP or Director might be very technically capable but lack the administrative and interpersonal attributes to lead. Good coaches do not theorize about what should motivate staff – instead on a case-by-case basis they discover what does motivate each of their reports. Good coaching is a continuous process – subordinates usually best receive advice incrementally rather than in one grand counseling session once a year.
4. Not happy with the productivity of their leasing representatives, a number of companies have revamped their leasing departments, hired new staff in an effort to enrich their gene pool. One company hires and a domino effect is created, as each recurring vacancy is filled-in behind. It’s as if all the soldiers on the parade ground took one giant step to the left – the same names - different business cards. The street becomes a revolving door of the semi-talented, hired on past accomplishments and relationships rather than their marketing and sales skills.

When hiring a leasing representative, have them dissect their completed deals, determine their contribution to the process. Ask what percentage of their new deals were broker driven; was the tenant mix and renewal dates within their portfolio determined by chance or design. Most importantly, determine their ability to think laterally by asking about econometrics, office ergonomics and competitive influences. Do they really understand tenant needs – now

and into the future? If you're facing a paradigm shift in terms of business process – why stick to tried and unsatisfying methods?

5. “*Lack of motivation*” was a common refrain, however motivating a leasing representative with an extra tens cents per square foot is not the answer – you might get them to move, but that’s not motivation. Motivation comes from within – you want to motivate your department? – Hire motivated employees!
6. Methodologies for sourcing leasing representatives has been mixed, both in terms of approach and result – targeted Rolodex recruiting, broker referral or dropping dynamite in the shallow end of the pool. One particular firm conducted a search for a mercenary “pardon me - leasing manager” by ricocheting around the industry like a pinball, asking anyone who would listen to them, “*Do you want to make two-hundred thousand dollars a year?*” Forty thousand dollars, two months and two hundred broker interviews later, they were able to compile a “short list” of twenty candidates. In keeping with my penchant for mixing metaphors, this approach to pre-qualifying a candidate is akin to “*target shooting with a shotgun.*”

Commercial Leasing Brokerage

One shouldn't be surprised that so many brokers stepped up to the plate to be considered for the aforementioned position; this sector of the industry is undergoing a substantial reassessment of its value proposition. The compression on fee's brought on by ownership consolidation and a better-informed tenant has forced the brokerage community to approach the delivery of its services in a more consultative rather than transactional fashion.

Brokerage fees are getting compressed - to my knowledge, no deal over 15,000 square feet has paid a full commission this year in Toronto.

Over the next eight years, we will observe the following changes within the commercial leasing departments of the brokerage community:

1. The brokerage firms will undergo a significant cultural shift – and divide or merge in a manner that reflects their senior executive's personalities – some will be highly transactional, faithful to their brokerage and deal based disciplines. It's likely they will be much smaller than they are today and highly networked through international alliances. Other firms will attempt to insert themselves higher up the value chain, by making the leap to a more consultative selling approach offering broader multidisciplinary services to end-users.
2. By positioning one's firm higher up the food chain, this consultative client driven broker will become the “National Account Manager” for major users, earning a predictable cash flow through annualized fees rather than transaction based commissions.
3. Loyalties will shift from owners to end-users; low-level relationship networks between individual brokers and in-house representatives will enter a state of flux.
4. The “tenant based” brokerages will be seeking a different breed of talent, one who is more client-focused rather than transactional. Brokers and owners will be competing for the same “client relationship management” sales traits, resulting in greater pressure on the talent pool.

5. I expect the under performing transaction oriented brokers that are unable to shift to a client driven focus will “wash out,” leaving the top tier “deal junkies,” their protégés and broker-consultants intact.
6. Depending on the nature and corporate culture of the firm, owners and asset managers will need to determine what kind of leasing representative they want on-board. You have and will continue to receive a steady parade of brokers across your desk, seeking to “come in from the cold.”

Our Services

If you don't have an internal human resource department to provide you with strategic and candid advice, to oversee implementation of best practices and processes, oversee recruitment, conduct independent candidate assessment or review your compensation strategy – you might want to consider outsourcing this requirement to our Strategic HR Advisory Group. Unlike search, these services are charged by the hour or per diem.

If you need an executive search team that approach their assignments from a perspective of solving organizational problems, brings candid insight, conducts thorough research, provides rigorous assessment, works internationally as well as nationally – then you need to speak to Rutherford International ESG at 416-250-6300. Electronic Brochure: www.rutherfordinternational.com

We welcome your comments, and would be pleased to forward you additional information on the scope of our services and/or methods. My email is: Rutherford@rutherfordinternational.com