



# Q3-2009 Canadian Real Estate Employment Survey

Final Report – Measuring Third Quarter 2009

Released: September 22, 2009

# + Survey Results

- A. Purpose
- B. Methodology
- C. Participant Profile
- D. Key Findings – General
- E. Key Findings – By Sector with Commentary
- F. Commentary
- G. Conclusion
- H. About Forbes Rutherford

# + Survey Results

The information contained herein has been compiled by Rutherford International Executive Search Group Inc. ("Rutherford International") from sources believed to be reliable, but no representation or warranty, express or implied, is made by Rutherford International, its Directors, Officers and staff or any other person as to its accuracy, completeness or correctness. Opinions, estimates, conclusions, or other information expressed or contained herein constitute Rutherford International's judgment as of the publication date, are subject to change without notice and are provided in good faith but without representation or warranty as aforesaid. Rutherford International and its Directors, Officers and Staff and Affiliates assume no liability for damage or loss arising from the use of information contained herein. Rutherford International is not providing investment, legal or tax advice. The views and opinions expressed by each participant are the individual's own views and are not necessarily the views of Rutherford International or the participant's employer. Readers are urged to consult their own professional advisors for further confirmation and information.

Copyright 2009, Rutherford International Executive Search Group Inc., All Rights Reserved. Any alteration, modification, reproduction, redistribution, retransmission, redisplay or other use of any portion of the content constitutes an infringement of our intellectual property and other proprietary rights. However, permission is hereby granted to forward the content in its entirety to a third party as long as full attribution is given to Rutherford International Executive Search Group Inc.

# + A. Purpose

Rutherford International's Employment Survey was designed to provide a third quarter forecast of senior executive opinion on their employment expectations within their industry currently and through to 2010. The survey was directed to the top- and first-tier executives within the Owner/Developer/Lender/Service sectors of Canada's commercial real estate industry.

Segmented by sector, opinion was measured on the following:

- a) Employment demand within the industry in 2010;
- b) Functional changes likely to take place within respondents' organizations over 2010;
- c) Critical human resource priorities within respondents' organizations;
- d) Economic factors shaping their opinion.

Details highlighting analysis from the 'Respondent Survey' may be found at Rutherford International's blog and Forbes Rutherford's LinkedIn address at <http://www.linkedin.com/in/rutherfordintl>. To receive a copy of the complete survey results, please contact Forbes Rutherford at 416-250-6300 Ext. 227 or by email at [forbes@rutherfordinternational.com](mailto:forbes@rutherfordinternational.com).

## + B. Methodology

Data for this survey was collected during the months of July and August 2009. A broad cross-section of the industry was invited to participate with a 50% percent response rate giving robustness to the data and analysis.

The percentage response by industry sector is as follows:

- Lenders – 20%
- Owner/Developers – 56%
- Broker/Investment Banker – 24%

The majority of the Owner/Developer category could be best characterized as “Private” as only a limited response was received from the public owners.

## + C. Participant Profile

Thirty-two percent of the respondents were Chief Executive Officers and forty-eight percent would be classified as First Tier Executives (or individuals that report directly to the CEO). Another eight percent were Second Tier reporting to a First Tier Executive.

The real estate sectors served by the respondents were as follows:

- **Office – 96%**
- **Industrial – 88%**
- **Hotel – 82%**
- **Retirement/Lifestyle – 48%**
- **Nursing – 12%**
- **Institutional – 28%**
- **Corporate – 28%**
- **Retail – 92%**
- **Multi-Family – 80%**
- **Other – 8%**

The geographical scope of respondent companies was as follows:

- International – 44%
- National – 36%
- State/Provincial – 4%
- Regional – 16%

## + D. Key Findings

3. Based on current economic climate, employment opportunities in the commercial real estate sector will:

	EXECUTIVE	MANAGEMENT	STAFF
Expand	4.0	8.0	8.0
Constant	40.0	44.0	48.0
Decline	56.0	48.0	44.0

## + D. Key Findings

4. Relative to current employment levels, which functions are likely to change at your company in 2010:

	INCREASE	CONSTANT	DECLINE	N/A
Fin / Accounting	31.8	59.1	9.1	0.0
Info Systems	22.7	63.6	4.5	9.1
Legal / Compliance	14.3	71.4	4.8	9.5
Inv Relations	10.0	55.0	0.0	35.0
Inv / Acquisition	18.2	50.0	13.6	18.2
Development	9.1	36.4	27.3	27.3
Construction	0.0	28.6	38.1	33.3
Leasing / Mktg	23.8	42.9	4.8	28.6
Prop Mgmt	4.5	54.5	0.0	40.9
Disposition / Sales	5.0	55.0	15.0	25.0
Asset Mgmt	25.0	58.3	0.0	16.7
Admin / Operation	13.0	73.9	8.7	4.3
Analysis / Research	17.4	65.2	8.7	8.7

## + D. Key Findings

5. The three most and least critical human resource priorities within respondent's organizations are:

HR PRIORITIES	MOST	LEAST
Employee Retention	54.2	
Employee Development	45.8	
Bonus Structure	33.3	
Performance Appraisal	33.3	
Knowledge Transfer	33.3	
Succession Planning		16.7
Innovation		8.3
Pay Equity		0.0

## + E. Key Findings – By Sector with Commentary

### 3. What are the main factors shaping your forecast?

#### Lenders:

- Employment in Canada begins to rise in mid-2010;
- Operating in a recessionary environment;
- Employment is a concern;
- Perception that lenders are afraid to foreclose, which is keeping seller hopes high. “Why die today, when you can die tomorrow.”
- Concern about how long it will take rents to bottom.

#### Owners:

- Liquidity, LTV's and vendor expectations;
- Shortage of financing and an unmanageable spread between “bid and ask;”
- Unemployment and credit markets;
- Economic recovery, availability of debt, stable rental rate market;
- Closer alignment of Vendor and Purchaser expectations;
- Reckless performance of the Obama administration;
- Deal flow, availability of funds for the industry as a whole;
- Operating fundamentals – rates and occupancy;
- Over the next few years in Toronto, there will be an increased supply of office space with shrinking business needs;

# + E. Key Findings – By Sector with Commentary

## 3. What are the main factors shaping your forecast?

### Owners (cont'd):

- Return of shadow banking system for commercial real estate lending – a re-launch of plain vanilla securitization;
- The lack of funds, increasing spreads in interest rates;
- No leasing velocity and a decrease in rental rates.

### Brokers:

- Current size of the 'bid-ask' spread between buyers and sellers;
- Apparent acceleration of financing terms coming more in line with historical levels;
- Continued steady improvement in GDP;
- Deleveraging, lower L/V's, higher spreads, many REITs and REOCs trading below NAV, flat to negative earnings growth;
- Collapse of the CMBS market;
- "Denominator effect" causing large pension funds to cease their real estate activities;
- Huge slide in public equity values;
- Fear associated with uncertainty as to how long and deep the recession will be;
- Pressure on clients to reduce overall spending;
- Competition entering Canada.

## + F. Commentary

### “Sitting on a Picket Fence can Hurt!”

With respect to responses regarding the condition of the employment market, it would seem the prediction for a decline in opportunities conflicts with the suggestion that most functions within the respondents' firms will remain constant subject to normal attrition (which averages around 5% in most companies) in conjunction with some targeted increases and terminations. Overall, there seems to be a determination to 'hang tough' at current numbers (short of development and construction roles) and not force any hard staffing decisions. "No new hires and hold on until we see what is happening." It's a bit of high stakes game that's being played in some shops – ante up with house stakes – 'Check' when able – and enter 2010 with a plan to make fine adjustments and seek quick opportunity plays; but in general – mark time until the industry completes its deleveraging. Requirement for development and project management expertise will continue to be asset or project specific whereby practitioners' will be hired on an out-sourced basis under personal service contracts or through corporations of professionals. Rutherford International has developed a global clearing house of interim development and project management professionals that can "plug and play" into organizations as an "outsourced" project team.

### “I'll Have a Bromo with that Denominator Effect”

It is also assumed that an increase in the equity markets will result in ameliorating the 'denominator effect' leading to a return of institutional capital to the real estate market for Class AAA and AA assets. Aside from fears of 'W' shaped recovery, one may well ask if there are other factors to consider when measuring the pension funds' appetite for acquisition? Such as: institutional debt and equity positions with 'under-water' REIT's and JV partners; shifting risk profiles of the portfolio when some "institutional investment grade assets yesterday are tertiary today"; more pliable opportunities south of the border; unfunded liabilities; increasing distributions as the baby boomers retire requiring greater liquidity on-hand; continued weakness in the real economy leading to tenant downsizing and erosion of the all-important 'face rate'; capital demands associated with repositioning existing assets to a 'Green status,' to ensure tenant retention and greater operational efficiencies.

### “Retaining your Walking Assets”

It may also suggest that companies don't have excess headcount to downsize in a manner reminiscent of the last recession. Investment in technology and the development of an austerity culture “doing more with less” has fostered leaner companies. The predicted demographic labour supply bust, which all industry and government sectors are currently experiencing – and self evident by respondents concerns over ‘employee retention, employee development and knowledge transfer’ (a surprising change from our mid-1990 surveys of executive attitudes) – will provoke upward pressure on salaries, bonuses and associated employee burden as firms compete for scarce and “effective” human capital resources in late 2010.

### “Forward to the Future”

The worrisome trend that emerged from the analysis is that respondents appear to place little importance on ‘succession plans’ and ‘innovation.’ One cannot afford to set aside these priorities. An organization that is innovative and ‘future focused’ suggests underlying traits of resilience and creative problem solving – one affects the future by managing the present.

### “Peter’s Principle Exposed”

- We purposely referenced the term “effective” to emphasize a human resource reality that generally becomes evident in recessionary markets after a long wave rise in the economy. A rising economy – ergo rising property values such as we've had for 18 years – tends to camouflage underwhelming talent within an organization. Their lack of “effectiveness” when the market turns negative is palpable; and often has a demoralizing affect on the high performers, especially if a portion of their compensation package is based on a “gain sharing” plan. It's a false economy to carry a manager constantly requiring remedial help – better to terminate and take the predictable hit on the bottom line than manage the incompetence by tasking executive time to manage around and/or risk long term costly errors.

## + F. Commentary

### “Economic Recovery and Generational Knowledge Transfer”

Good managers are the product of acquiring “tacit” knowledge, which is achieved on the job through apprenticeship, mentorship and direct – but guided experience. “Tacit knowledge” cannot be acquired from a book or from periodic lectures by industry experts. Hiring for sound character, optimism, a thirst for learning and an outwardly focused value system will enable any organization, regardless of industry to adjust “on the fly” to the demands of a down or static cycle. When hiring staff, the key personality trait that employers should seek now and in the best of times is “resilience”.

In general, anyone under 45 today wasn’t in a position of management and leadership during the last major recession and may well struggle while adjusting to this recession (or if not an official recession – then economic “malaise”). This statement is not intended to denigrate the middle generation of real estate professionals but speaks to the harsh reality that the “Dark Age” of the early 1990’s real estate depression led to lean, compartmentalized organizations with little time or inclination for knowledge transfer. This generation of real estate professional didn’t acquire “tacit” knowledge through transference from mentors. In many cases, understanding the nuance of what will work and won’t work will need to be relearned. Errors and omissions are bound to happen.

## + F. Commentary

### “ Best Case – Leveraging Brand & Grabbing Talent on Waivers”

Companies that prepare for recovery by investing in their corporate brand and their product delivery platform tend to lead their competitors for three to five years post recovery. Not only should a CEO invest in their brand; but they should seek to improve their company’s bench strength when competition to attract quality staff and management is weakest.

### “ Worst Case - A Dead Cat Bounce”

Lenders are less sure about the fundamentals for real estate in 2011 than that of the Broker and Owner respondents. Perhaps a rising American accumulated debt, which is currently broaching 13 Trillion dollars, has given them pause to think about the inflationary impact of the unsustainable monetary maneuverings of the US Federal Reserve and Obama’s first term initiatives.

Rising annual American deficit’s to the tune of \$1.5 Trillion in 2009 and again in 2010 would suggest that we’re in for a lengthy period of monetary indigestion. It would seem to us that the ability to think laterally, to problem solve creatively; to sort out the winners and losers when identifying tenants for “blend & extend” negotiations (or to inoculate an asset’s mix with a good balance of recession and high interest rate resistant tenants); or to squeeze out additional “Net Operating Income” or negotiate financial workouts will be long-term and valued skills in our industry going forward.

## + I. Conclusion

The fourth quarter of each year has become a traditional period for crystal-ball gazing and genuflecting to industry soothsayers at various property and economic forums. Once you get through all the verbiage, you'll discover that understanding the direction of our economic future is an educated guessing game.

In good times, the prognostication is for sunny weather. In hard-times, the group think is generally gloomy. We all tend to look at the future through the lens with which we've become most comfortable. This might explain why the opinions regarding acquisition/disposition, financing/refinancing fundamentals for 2011 vary with each respondent sector.

Having worked for the weather office for a short time in my youth, I came to realize that a forecast calling for "Partly Sunny/Scattered Showers" was a euphemistic phrase coined by the climatologist when he didn't know what was going to happen. In keeping with this analogy and in the fine tradition of our local weather office, each respondent sector – albeit somewhat different in their scoring – is calling for "Partly Sunny/Scattered Showers" in 2010.

Having done my fair share of crystal-ball gazing at one podium or another during the 90's, I can recall with sheer horror the number of times I inserted into a speech the banal phrase that "we are living in changing times" or that "change is the one constant in our lives."

I'm older now – and a bit wiser – and able to ask the questions: "Do we really live and manage in times of change? Or, are we simply managing and living in chaotic times that remain in context somewhat the same?"

The lessons from 19 years ago that gravity and finance co-exist are being relearned with a vengeance. A Senior Vice President of real estate lending with a major Canadian bank told me while collecting answers for an "Attitudinal Survey" in 1990, "Forbes, we were Lotus fried – we had all these MBA's in here convincing us to do a deal by simply changing the variables on a spreadsheet. Of course their compensation is based on volume of deals written, not on the quality."

"What do you think you have learned from this experience?" - I asked. "Nothing, we have no institutional memory. We're doomed to repeat ourselves. I give it 15 or 20 years."

Everything that is 'old' is 'new' again.

## + H. About Forbes Rutherford

Through Rutherford International Executive Search Group Inc., Forbes Rutherford specializes in executive, strategic partner and interim executive search. Prior to starting his firm in 1990, he was a Partner with an international search firm, where he was responsible for real estate executive search, compensation and market research. He consults to real estate developers, owners, banks, life companies and fund managers on matters of executive and management selection utilizing a referral network of real estate advisors, lawyers, accountants and investment professionals in over forty countries.

Forbes offers a "Partner Search" service where he facilitates joint-ventures by matching capital with executive talent; and/or compatible companies poised to increase market share through merger. His "Interim Executive" practice supplies contracted expertise to clients in need of development, project management, asset stabilization, restructuring and financial workout.

Forbes has created a separate management and staff selection service called North American Real Estate Recruiters (NARER) which project manages on a time and material basis the recruitment and assessment of project teams and/or key staff. NARER utilizes an external network of contingent recruiters, job boards and internet tools to access talent; and then filters the candidates through Rutherford International's assessment methodology.

Prior to his real estate executive search practice, Forbes worked in real estate development, investment syndication and resort promotion.

## + H. About Forbes Rutherford

### Experience:

A partial list of past search assignments: President & CEO, CFO, COO, CIO, VP US Acquisitions, Project Architect for Canary Wharf, Regional Property Manager in Puerto Rico, Fleet Operations Manager in Tunisia, VP Chief Economist/Investment Research, VP Corporate Funding – Euro Financing, VP Real Estate Valuation, Manager US Bond Trading, VP Development's, VP Financial Services, VP Strategy & Planning, VP Finance (REIT) Corporate Controller's (REIT & Pubco), In-house Legal Counsel, VP National Accounts, VP Facilities Management, Project Director – Waterfront Development - U.A.E., Project Director – India, Development Leasing (Major Project), Senior Design Architects, Retail Transaction Managers, Leasing Executive's, Director Asset Management, General Manager's – Major Complexes – Retail & Office, Airport Retail Leasing Manager, etc

Forbes has sat on the Toronto board of IFMA; CCIM, and a global top 10 real estate brokerage.

### Contact Information:

#### Toronto Address:

Royal Bank Plaza, North Tower, 200 Bay Street, Suite 1650, Toronto, ON, M5J 2J2, Canada

T: 416-250-6300 E: [Rutherford@rutherfordinternational.com](mailto:Rutherford@rutherfordinternational.com) Skype: rutherfordintl

#### Calgary Address:

Sun Life Plaza, Suite 1600, 144 4th Ave., S.W., Calgary, AB, Canada, T2P 3N4

T: 403-698-8266

W: [www.rutherfordinternational.com](http://www.rutherfordinternational.com) Blog: [www.rutherfordinternational.blogspot.com](http://www.rutherfordinternational.blogspot.com)