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ADVISOR BLOG | DEC 2019

The Fight to Retain Talent in Real Estate: A Different Bidding War

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The real estate industry’s aggressive period of growth shows little sign of abating. With access to capital in ample supply and a strong demand for new product, the industry is expected to extend its sustained run of new development for the foreseeable future.

With the current economic climate for real estate showing material additional growth, it has put an undeniable strain on human capital. Simply put, firms have been challenged to build and maintain a talent advantage over their competitors to sufficiently outperform rivals through this growth cycle. Aggressive organizations are actively scouring the market in search of “difference-making”’ professionals to give them a talent advantage and help capitalize on this lengthy run of industry expansion.

While there is never a good time to lose a valued employee, the risk of losing key talent at this stage in the market can be crippling. In addition to lost production, losing vital employees can materially disrupt momentum, put projects at risk, and potentially lead to additional defections at a time when employee “replacement cost” spirals above what is feasible within a firm’s compensation parameters and/or capital constraints.

Savvy executives are aware of these potential vulnerabilities and are implementing strategies to retain their top-tier professionals. Specifically, forward-thinking organizations are establishing and implementing new, supplemental compensation programs designed to reward, retain, and motivate select key professionals and allow them to share in long-term value creation.

For example, a multifamily owner/operator/developer concerned with losing critical mid-level members of its acquisitions and development teams implemented a restricted stock unit long-term incentive plan, where professionals received phantom share grants which could be converted into actual shares upon vesting at a specified time in the future and/or when a specific milestone occurs. Through the use of continued service and/or performance-based vesting requirements, the client, in essence, created a “golden-handcuff” mechanism which led to a material decrease in turnover as well as additional productivity among phantom stock grant recipients who began to think and act more like owners of the business.

Irrespective of size and ownership type, an additional compensation program can be designed to provide long-term reward for difference-making employees at all levels of an organization. Done right, these programs provide the professional team with avenues to realize additional compensation rewards through accomplishing mid- and longer-range financial goals and key strategic objectives in support of long-term value creation. Presuming the program is designed to provide a realistic path to hitting these mid- to long-term targets, it should provide employees with a compelling reason to resist overtures from competitors. When properly designed and implemented, these supplemental incentive programs can lead to improved production and retention gains that more than cover plan costs.

In summary, human capital should be viewed as an investment rather than a cost. Done right, particularly in market conditions such as those in the real estate industry today, your compensation plans can become a cornerstone tool in incenting and retaining difference-making talent. An effective compensation program should reinforce a company's business and talent management strategies, align with the current/desired corporate culture, and provide for fair and competitive pay opportunities that are appropriately aligned with performance and value creation. Key plan provisions should also be clearly and regularly communicated to participants. Effective program designs will have an energizing effect on a company and dramatically improve corporate culture, typically leading to improved performance and employee satisfaction. Ensuring that there is a compensation program in place designed to incent professionals and reward them for performance, as well as for loyalty, is an increasingly vital strategy in this hyper-competitive climate.

About the Author

Jon Boba is a managing director at Pearl Meyer. Over his nearly 30 years in real estate consulting, he has completed more than 1,000 engagements representing a wide range of firms in the real estate and financial service industries. He also has developed an industry specialization in health care/seniors housing as well as affordable housing, where he is a recognized leader, respected conference speaker, and author of several published articles.

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