The Future of REIT CEO Succession

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REIT Strategy Considerations in a Post-Covid World

Diversification
While REITs in many sectors (industrial/logistics, data centers, self storage, etc.) have thrived during the pandemic, their retail, hospitality, and seniors housing counterparts (among others) have been devastated by the complete disruption in consumer behavior. Historically, investors have insisted on REITs concentrating within one asset class. Lead Directors/Chairmen were asked to opine on the prospect of diversifying by property type in light of the pandemic. Most (63%) suggested that diversification should not be part of a REIT’s strategy moving forward. For those who viewed diversification to be a poor strategy choice, their rationale was largely around giving the investors what they want — a property focused REIT. Additionally, respondents used examples of other REITs who have tried at diversification and failed, noting that it was better to remain an expert in one asset class than struggle to learn multiple property sectors. Those who saw a need for diversification in the future spoke to the necessity of expanding property exposure to ensure REITs would be more resilient the next time we encounter a catastrophic global event.

Globalization
With the rapid increase in the interdependence between the world’s economies and sophistication in technology and data security, we were curious about the potential for greater REIT globalization. By and large (72%), Lead Directors/Chairmen did not think that globalization made strategic sense for most REITs. Most felt that globalization was property specific, driven by the global synergies among tenants, or the benefits of scale. Others were leery of globalization because of international tax laws, repatriation of funds, and cultural challenges. As with diversification, many referenced REITs who unsuccessfully attempted to move towards a global footprint and ultimately had to reverse their plans for international expansion.

Leadership Succession
As with any succession plan, the major consideration always comes down to selecting an internal candidate or external candidate. Moving one step further, should REITs consider candidates from unconventional backgrounds? The majority of Lead Directors/Chairmen (64%) felt that it was best to go with an internal candidate with deep sector expertise. A handful (11%) of respondents believed that an external candidate would be preferable, but only if the company were due for an overhaul in strategy. In general, Lead Directors/Chairmen were firm in their belief that it is incumbent upon the current CEO and Board to identify and develop potential internal successors and if they don’t have any potential successors, they have failed to perform their duties.
Leadership Skills for CEO Succession Candidates

Throughout our conversations about leadership skills required of future CEOs, respondents repeatedly emphasized the importance for a greater focus on the human capital side of leadership: a commitment to diversity and inclusion, humility and self-awareness, and an ability to communicate with the Board, the company, and external constituencies. Though these are not new skills, they have taken a back-seat to the more tactical and performance-oriented facets of leadership.

As leadership competencies have evolved, more and more has been asked of CEOs. REITs generally tend to look for CEOs with deep strategy and capital markets sophistication; if the company has a development arm, candidates often are required to have development experience, and they are also required to have strong leadership skills. While multiple skill sets are not mutually exclusive, it is unrealistic to ask one person to be highly skilled in all areas.

When asked about qualifications key to future success, nearly all Lead Directors/Chairmen mentioned humility and self-awareness. It will be important for the next generation of leadership to have an accurate and clear understanding of their strengths as a leader as well as their professional development opportunities. Self-awareness inherently fosters transformational leadership. One respondent stated, “The future of leadership is about one’s ability to leverage their teams and Boards, to come to the right solution, rather than to assume they know best.” Leaders who practice humility regularly are able to engender the trust of their organization.

The COVID-19 pandemic, coupled with the election year, and an increase in social activism, have all contributed to the rapidly changing expectations of organizations and more importantly, their senior leadership teams. The millennial, and Gen-Z population in particular, is more focused on social issues (e.g. Black Lives Matter), than any generation before. What’s more, the culture around what is appropriate to discuss at work has changed as well; employees want to know their employer is committed to diversity and social justice. The next generation of CEOs must be willing to address these issues at work, act responsibly, and be a champion for meaningful change. This culture shift will make ESG commitments and policies evermore important to attract the right talent and bolster confidence. Many REITs have organized Diversity, Equity, & Inclusion (DEI) committees within their workforces. These committees are working diligently to understand how they can attract more diverse talent and create a culture which embraces differences and makes all employees feel a sense of belonging and inclusion. To ensure success of DEI efforts, it will be important the CEO and other members of the leadership team are vocal in their sponsorship.
The third and final theme that arose out of the interviews was a need for increased communication and collaboration with the Board. The Board is an excellent resource for CEOs and should be leveraged as such. Board Members have decades of experience spanning multiple organizations and can provide valuable counsel to leadership as they work to determine strategy and develop strong organizational cultures. Historically, many CEOs have treated Board meetings as something that must be endured rather than fostering beneficial relationships. However, as we continue to encounter increasingly complex and unique challenges, it will be even more important for the CEO and Board to have a positive and transparent relationship to successfully work in lockstep. For first-time CEOs, this is both a skill and relationship that can be curated with onboarding coaching as well as mentorship from a trusted Board Member.

While the COVID-19 pandemic has radically altered the way we live and work, the future of leadership is rather straightforward. Leaders will need to exercise self-awareness and humility, commit to creating a culture that is inclusive and considerate, and foster transparent and trusting relationships with Board Members.
Over the last 6 months, many REITs (like all public companies) have experienced unprecedented disruption due to the COVID-19 pandemic. To better understand the impact of the pandemic on REIT CEO succession and strategy, Ferguson Partners interviewed 12 Lead Directors/Chairmen of REITs across various asset classes. This paper aims to detail the findings and provide perspective to those responsible for planning leadership succession.