



The Numbers Behind Real Estate's Diversity Problem

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REAL ESTATE'S DIVERSITY PROBLEM. CREDIT: GETTY IMAGES.


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Here we are again. Despite a decade of diversification efforts, the commercial real estate industry nationwide remains overwhelmingly white and male.



Scroll through the websites of major firms and their top executives, and the faces staring back invariably do not include many people of color, nor many women.

“Our industry has a real diversity problem and we all know it,” Tammy K. Jones, co-founder and chief executive of Manhattan-based Basis Investment Group, said over email. Hers is one of the very few black female-controlled real estate investment platforms nationally. “You can even look at the commercial real estate Zoom webinars and virtual conferences during this pandemic and the boxes all look the same; largely, ‘male and pale.’ This visual sadly serves a powerful reminder to me of how little things have changed over the last 20 years.”



All available statistics show a sorry record on diversity compared to other major U.S. industries such as media, insurance, law, and technology. Here’s one: Of the \$69 trillion of assets in the global investment market, including in real estate, just 1.3 percent is invested in firms that women or minorities run, according to a 2019 report from the Bella Research Group and the John S. and James L. Knight Foundation.



Now, in the wake of protests following the killing of George Floyd at the hands of the Minneapolis police, some see an opportunity to accelerate changes already underway in the industry. And they say they have demography and technology on their side.

“That’s why the industry has been slow to change,” said Diane Danielson, chief operating officer of commercial real estate franchisor and consultancy SVN International. “There are still people out there doing business the same exact way they did in the 1980s and 1990s.”

Commercial real estate has always intersected with issues of race and socioeconomic class, including where to build and for whom—as well as who to partner with and what to charge for the finished product. And it’s facing increasing pressure within New York City to fortify those intersections. Witness how alarmed and surprised the industry was by the passage of new rent regulations last year in New York — which many low- and middle-income New Yorkers and their elected officials heartily supported.

But that’s just the management side. On the employee side, the impact runs deeper.

Minority and female employees suffer from a dearth of the sort of connections that prevent them from advancing in an industry that runs on “who do you know?”

In the end, what finally moves commercial real estate towards meaningful diversification might not be any sort of higher calling to end such disparities, or to even improve its public image. It might just come down to being better for the bottom line.

‘Country club recruiting’



seven years ago, and painted a very monochromatic picture. Interviews and responses to requests for more recent data suggest that things have diversified slightly, but that a lot remains the same.

A 2013 report that analyzed Census and Equal Employment Opportunity Commission data covering a broad swath of the industry nationwide — including property managers, developers, and appraisers, while excluding brokers — found that 77.6 percent of senior executives in commercial real estate were white men, and 14.1 percent were white women (a 2017 report from CREW Network, an advocacy group, found the industry overall to be nearly two-third male). Hispanic men accounted for 2.9 percent of such roles, and Asian men 1.6 percent. Black men held 1.3 percent. Non-white women barely registered.

The report found similarly chasmic discrepancies in the middle-management and professional ranks of commercial real estate. These stats compare with a country that is 60 percent white, 18 percent Hispanic, 13 percent Black, and 6 percent Asian, according to census data.

The reasons for these discrepancies, and for their staying power, run the gamut.

There's nepotism, to begin with. Many major real estate firms, especially in New York and other larger markets, are family businesses where prime leadership roles are passed down from generation to generation. Beyond that, family connections tend to ease entry into the industry. In one recent CO list of 25 promising entrants in the market, a dozen of the honorees spoke of having family in the business. And, as CO reported, it's not unusual for applicants to be asked if they have such familial ties—or just the dreaded “who do you know” question. If they can't rattle off names, or some personal connections, they may not get in the door. SVN International, for its part, has labeled this approach “country club recruiting”.



Accordia Partners and a former president of the Federal Reserve Bank of Boston, who's black, said. "People hire who they know, who they like. It's just not a very democratic access to entry."

Going further back, the problems also start with the historical marginalization of people of color in particular through segregation and redlining. All too often one of the best ways to break into commercial real estate, particularly from well outside the field, is some sort of advanced educational training, which often includes introductions to industry players.

That's not always an option for people of color given those historical disadvantages. "You could get a master's in real estate to get hired," Sykes said. "Not everyone can afford a master's though."

Beyond the historical barriers — which the industry in recent years has tried to knock down through internship and mentoring programs — is the way business has long been done in commercial real estate. Even after getting a foot in the door, dealmaking and investment are based extensively on personal connections forged in higher education and in institutions traditionally not open to minorities.

"Commercial real estate is a relationship business and it's hard to navigate if you are on the outside without sponsorship or access to opportunity," Basis Investment's Jones said.

Reams of research in recent years suggest that diversification would do the industry good, however, especially given the looming demographic shift.

A landmark 2015 report from consultancy McKinsey & Company that analyzed 366 firms in several countries, including the U.S., found a correlation between a company's diversity and its profitability. Among the starkest findings was that



more likely to report financial returns above their respective national industry medians. A 2018 update to the McKinsey report, with 1,000 companies analyzed this time, reached similar conclusions.

It's the same for hiring the best talent in the next generation. Diversity's key there too. An SVN International study, out in 2016, polled millennials regarding the commercial real estate industry specifically. That survey found that the largest generation yet in America put a premium on diversity. Around 45 percent rated gender diversity at commercial real estate firms very or extremely important, and more than 41 percent saw ethnic diversity in the same way.

What's more, being diverse to begin with can help attract millennial talent, the SVN study found. That's because "a lack of diversity can be a dealbreaker for the diverse talent the industry needs."

Death and dinosaurs

The industry needs talent because it's aging. The median age for commercial real estate brokers who belong to the National Association of Realtors was 60, according to the results of a survey that the group released in 2017. For comparison, the funeral industry, with a median age of 53.1, was the oldest industry tracked by the federal Bureau of Labor Statistics that year, per SVN International.

This agedness in commercial real estate isn't necessarily just because the nation as a whole is graying — an estimated 10,000 people in the U.S. were turning 65 every day by 2019, according to census data—but instead is due to different factors that in turn contribute to the industry's lack of diversity.

The last two recessions, before the current one, hit first just as members of Generation X were finishing college and starting their careers and then as the



stymied hiring and pushed back shifts in leadership roles at commercial real estate firms that much further, analysts say.

Then there are the “dinosaur firms” (another SVN term). These are the decades-old — sometimes a century-plus-old — companies that dominate commercial real estate, particularly in its more lucrative markets such as New York, Chicago, and Los Angeles. They’re a turnoff for younger entrants because of their reliance on doing business largely through those previously forged connections and because of a resistance to potentially disruptive technology.

And there is commercial real estate’s reliance on commission-based pay, particularly for brokers. Younger would-be entrants can’t afford to work for lengthy periods of time before they get paid. Some analysts have suggested switching to a team commission model or to something that provides more money upfront to cover the training costs that might go into even applying for a job in the first place.

Finally, real estate licensing boards tend to emphasize the residential side of the business and not the commercial side; and the classes for residential licenses versus commercial ones abound as a result. “The classes are all residential,” Danielson said. “You have to know that you want to be in commercial real estate to get into it.”

Trillions in opportunity

Basis Investment’s Jones sees potential in the demographic shifts, especially when it comes to her investing wheelhouse. Of the approximately \$15 trillion in commercial real estate in the U.S., she said, about half is located in the middle market, and is usually owned by individuals or partnerships—and a majority of these owners “are baby boomers who are beginning to age out.”



Jones said she and others are working to diversify the industry ahead of time. Proptech might speed that and other transfers, erasing the classic barriers in commercial real estate by more easily connecting buyers and sellers, investors and entrepreneurs. Sykes said it's especially exciting because much of this technology, including crowdfunding facilitators and listing aggregators, is just getting started.

“I think there is a whole maturation in that industry that has yet to happen,” he said.

On the brokerage side, numerous internship and mentorship programs have arisen since that 2013 study laying bare the industry's stark homogeneity. The Real Estate Executive Council, a professional trade association for executives of color in commercial real estate, runs internships for minority high schoolers. That program is closing in on 400 interns so far, with 1,500 slated for the next four years. The Real Estate Board of New York launched its own minority and women internship program in 2019, placing 51 young adults in paid summer stints.

The idea behind these efforts is to reach people before or at the very start of their careers so they can establish a track record and not rely on personal connections to land a job. “The kids that we see that really want to do real estate have demonstrated that they do and tend to stand out,” an executive at Starwood Property Trust told CO in 2019 regarding hiring at alternative lending firms.

Such programs and the new technology, as well as those demographic movements and a renewed focus on the issue, might finally diversify commercial real estate after years of awareness of the challenge. Much as the pandemic sped along changes in the physical layout of commercial real estate, the current



occupying it.

“There are new ways and new avenues for people to come into real estate,” Danielson said. “Not as many as there should be, but it’s happening.”

KEYWORDS: [Accordia Realty Ventures](#), [Basis Investment Group](#), [Bella Research Group](#), [Diane Danielson](#), [Kirk Sykes](#), [National Association of Realtors](#), [Starwood Property Trust](#), [SVN International Corporation](#), [Tammy K. Jones](#)

Organizations in this story



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Investor, Lender, Owner

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