Global Real Estate Trends Review

October 2010

Welcome to the third Global Real Estate Review of 2010, a series from Russell Reynolds Associates' Global Real Estate Practice, which highlights hiring trends in the industry.

It is our belief that a recovery, while painfully slow, continues in commercial real estate. Dwelling on the negative momentarily, there remains a dearth of quality investment opportunities in the market. The flood of distressed assets that would dwarf the RTC days of the early 90s has yet to—and likely never will—materialize.

While the financing market, including CMBS, begins to show modest signs of life, the raising of equity capital from institutional investors remains an extremely difficult task. In our first quarter 2010 analysis, we highlighted the dramatic uptick in hiring of institutional capital raisers, primarily by very well-established real estate private equity firms with rich histories over the past 20+ years. With their track records spanning decades, their viability going forward was assured…however, in the current environment these firms required a larger team to raise less capital than in previous years. These firms are the exception rather than the norm. For many others, particularly firms that sprung up in the last 10 years, raising capital in the institutional market is an extremely difficult and time consuming—if not impossible—task.

With the financing markets still relatively cautious, the only consistent source of liquidity has been in the public markets. Although the root causes of the crisis in the early 90s are in stark contrast to the present, the stampede toward the public markets is quite similar to that of the early days of REITs in the mid 90s.

Secondary offerings dominated in 2009, with survival being the main driver. REITs with heavily leveraged balance sheets sought funding to pay down and extend debt on overleveraged balance sheets. Seizing the moment, other healthier public platforms raised equity capital preparing for a period of distressed asset opportunities that has yet to occur. One prominent real estate investment banker told us late last year that his group had over 60 potential public offerings in the pipeline, admitting that perhaps only 20% would "make it".

In 2010, seven initial public offerings have taken place, complementing dozens of secondary offerings. In total, over $8 billion has been raised in common equity this year, with peak activity coming in May and—after a summer of uncertainty—again in September. The most recent IPO of Denver-based data center REIT CoreSite was the first equity REIT to go out at the midpoint of the pricing range since 2007.

With overall values in the public sector splitting the difference between "peak" of early 2008 and "trough" of early 2009, the level of activity is expected to continue despite fragile fundamentals at the property level. Going forward, one Managing Director-level banker speculated that there will be a shift toward the public markets on par with the overall trend toward privatization seen from 2004 to 2007.

Indeed, with market capitalizations among multi-family REITs at two-year highs, an office market showing signs of recovery in major U.S. markets driving performance of well-known REITS within the space and the continued increases in value specialty niches such as health care and data center companies, there is no fundamental reason to forecast a slowdown in the public offering space.

The REITs historically maintain more consistent staffing levels through market cycles but many suffered through extensive layoffs in late 2008 and early 2009, with virtually no hiring activities for much of 2009. Although we have seen a noticeable increase on the demand for talent in the REIT sector, there has been even more activity around the recruitment of REIT leadership as companies position themselves to go public now or in the not too distant future.

Further reflecting this trend:

- With existing private companies being taken public, a need for "public market" talent often becomes a reality. This most often manifests itself in the need for Chief Financial Officers with public investor relations experience, and Sarbanes-Oxley expertise and secondarily in the requirement to recruit a General Counsel with public market savvy.
- Continuing on that theme, boards need to be formed for newly public companies. While the real estate universe remains behind the rest of the corporate sector as it relates to true independence, Audit Chairs requiring more specific qualifications are required to comply with Sarbanes-Oxley regulations.
- Within well-established REITs that raised capital and diluted their equity base last year, there often have been changes within the C-suite. A shift toward operations and asset management acumen and away from growth and investment skill sets within CEOs has created ripple effects within senior leadership teams.
- In good times and bad, Chief Financial Officers remain in relative demand. This demand has been increased with the initial public offerings over the last three quarters. One REIT's gain—in short—is another's loss.

Track Record

At this point in 2010, approximately one third of our ongoing activity within the real estate practice is on the public side, the highest level since 2007.

More generally, some of our recent completions include:

- Chief Executive Officer for a healthcare REIT
- President, Asia for a leading retail REIT
- Principal, Investor Relations for a leading real estate private equity firm
- Head of Retail Development for a Dubai-based real estate company
- Director, Acquisitions for a leading private real estate private equity firm
- Chief Executive Officer for a leading affordable housing developer
- Senior Vice President and Managing Director, Acquisitions for a newly formed core fund manager
- Chief Executive Officer for a newly formed, private industrial REIT
- Vice President Asset Management for a recently acquired bank with a significant distressed loan portfolio

About Russell Reynolds Associates

Leadership for a Changing World. In today's global business environment, success is driven by the talent, vision and leadership capabilities of senior executives.

Russell Reynolds Associates is a leading global executive search and assessment firm with more than 300 consultants based in 39 offices worldwide. Our consultants work closely with public and private organizations to identify, assess and recruit senior executives and board members to drive long-term growth and success. We value teamwork, serving our clients with a collaborative approach that spans our international network of sector and functional experts.

Our in-depth knowledge of major industries and our clients' specific business challenges, combined with our understanding of who and what make an effective leader, ensure that our clients secure the best leadership teams for the ongoing success of their businesses. For more information, please visit us at www.russellreynolds.com.