

Global Real Estate Trends Review

July 2011



Welcome to the second Global Real Estate Review of 2011, a series from Russell Reynolds Associates' Global Real Estate Practice, which highlights hiring trends in the industry.

The level of transaction activity in both debt and equity has greatly increased from 2010 to 2011. Up until some discouraging employment and macroeconomic news in early June, lending had opened up drastically; with life insurance companies leading the way, lending is up 88% overall, according to CoStar Group. On the secondary market, the flood gates have opened as banks have finally moved in earnest toward cleaning up their balance sheets and moving troubled loans off the books.

In addition to balance sheet lenders, we are witnessing boutique debt fund managers and large diversified money managers raising and deploying capital. This includes opportunity funds with the latitude to buy paper on the secondary market or provide mezzanine financing; newly formed mortgage real estate investment trusts (REITs) created with the intent to fill the void left by many of the commercial banks; and specialized debt funds initiated to capitalize on the distress in the marketplace.

The securitization machine has also been cranked up, with commercial mortgage-backed security (CMBS) teams aggressively ramping up hiring and overall activity. Through April 2011, \$9 billion in CMBS was issued, on pace to more than double last year's volume of new issuances.

Relative to the equity side, the pace of acquisitions has been brisk. In markets such as New York and Washington, D.C., cap rates have shrunk to four on stabilized assets. This seems to be a continuation of the steady demand for "safe" investment among institutional clients seen over the last year. In addition, many of those with dormant capital over the last several years, on the opportunistic end, have sprung back to life in 2011. The most recent quarter saw both institutional, core managers and REITs get active, acquiring large assets and portfolios in the retail and office asset classes, and a large land parcel was acquired in the Bay Area for development by a leading healthcare REIT.

In some corners, the word "development" has been resurrected into the current vernacular. This includes broken development deals or portfolios being tended to after a period of prolonged ground-up activity shelving and, in other cases, ground-up activity where it is cheaper to build than buy. This is limited almost exclusively to the multi-family sector in distinct geographies, but is nevertheless significant in terms of how quickly momentum has been gained.

From a human capital standpoint, we have seen the ripple effects from all of the above. More specifically, we have become active once again in recruitment of investment professionals at the mid and senior levels, spanning debt and equity. As mentioned, CMBS and whole loan origination teams are re-forming with high-profile former Lehman bankers landing in leadership roles in recent weeks. Mid-level hiring activity in acquisitions has increased, particularly in New York with some lagging level of hiring activity on the West Coast. In some instances, we are also called on regarding inquiries on the development side. But before we call this a sustainable trend, we will defer for at least another quarter.

More immediately, we are keenly interested in whether the investment professional of 2007 who became a utility player in 2009 will return to his/her roots in 2011 and 2012. In many fund environments, acquisitions professionals became asset managers or generalists. Assuming a continued level of increased capital deployment, we anticipate increased leverage in the form of junior-or mid-level talent will be added going forward.

More interesting is the evolution of select senior investment professionals to client facing advocates. In the post-Great Recession Era, investor relations has become a highly complex role, as investors have grown skeptical and demanding. Fundraising has become arduous and more time consuming, given the continued reticence of investors to ante up for new investment vehicles.

As a result, we have seen a meaningful trend toward redeployment of executives at both the mid and senior levels to client facing roles. In short, we are seeing a movement away from the classic relationship-oriented marketing and investor relations professional to providing clients a deeper level of front line expertise. In most cases, the newly reinvented advocate for the firm can function as a proxy for the Owner(s) / Founder(s) / Principal(s) who can visit only one client on one continent at a time, in an increasingly global fundraising environment.

In Asia, we have seen a similar theme. Overall, the asset management industry continues to grow exponentially, and therefore demand exists across all product classes within the region for senior level sales and marketing professionals. As a result we continue to see significant demand in private equity real estate for fund raisers.

There too, the industry is seeking the next generation of fund raising and client servicing professionals who have worked in investment functions, have significant product knowledge and are not purely from a sales background. This will have a "ripple effect" across other functions to include investment strategy and research and portfolio management and acquisitions for senior level professionals who are from an investment background and are also equally well versed in dealing with investors.

In short, it seems that generalist backgrounds are the wave of the future, potentially spawning more well-rounded, overall leadership talent for the next cycle(s).

Specific examples in 2010 and 2011 include:

- The shift of a Chief Investment Officer of a family owned General Partner to a Head of Marketing and Investor Relations role
 - A highly regarded Director of Investments within a Pan-Asian fund manager, shifting to a hybrid role, communicating directly with major clients globally
 - A Principal within the acquisitions group of a prominent opportunity fund taking a leadership role in raising the firm's 2010 vintage fund
 - The continued growth of a real estate fund marketing team consisting strictly of former investment professionals for a large multi-strategy private equity firm
 - The movement of a Managing Director-level investor at one of the largest bulge bracket sponsored, multi-strategy platforms to a leadership role over a large marketing and investor relations organization
 - The recruitment of a highly regarded acquisitions professional from a bulge bracket sponsored Principal platform to a Principal position in the investor relations group of a multi-strategy real estate fund manager
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Track Record

Thus far in 2011, our activity continues to be fragmented, with an emphasis on C-suite level hiring within the REITs, marketing talent and revitalized demand for investment and development talent.

Recent completions include:

- **Chairman and two Board Members** for a dominant retail/office owner and developer
- **Chief Executive Officer** for a private equity-backed, privatized triple net lease REIT
- **President** of a large industrial portfolio, backed by a private equity firm
- **Chief Financial Officer** for a multi-billion dollar hotel REIT
- **Principal, Investments** for a debt fund platform within a large multi-strategy private equity firm
- **Global Head of Research** for a leading investment firm
- **Head of Real Estate Finance, Asia/Pacific** for a Global Investment Bank
- **Head of Capital Raising, Asia/Pacific** for a Global Real Estate Investment Manager
- **Head of Investment Strategy and Research, Asia/Pacific** for a Global Real Estate Investment Manager Head of Transactions, China for a Global Real Estate Investment Manager
- **Senior Vice President of Marketing** for an urban focused, multi-strategy fund manager, based on the East Coast
- **Senior Vice President of Marketing** for an urban focused, multi-strategy fund manager, based on the West Coast
- **Portfolio Manager, Japan** for a Global Real Estate Investment Manager

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.
