

Secrets of my succession

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While some firms have become more proactive about succession planning, others continue to struggle with the issue.

Christopher Merrill likes to think ahead.

The president and chief executive of Chicago-based private equity real estate firm Harrison Street Real Estate Capital is only in his mid-40s, but already he has been thinking about succession planning. Earlier this year, Merrill, who co-founded his firm with Chris and Mike Galvin of Motorola's founding family in 2005, engaged a number of consulting firms to advise him on how to develop a plan at his firm.

"It has been a decade since our founding," says Merrill. "We believe it to be very important to focus on succession within all areas of leadership in order to maintain a stable platform that can span decades. In our opinion, a successful investment management firm will be prepared for many unforeseen challenges that present themselves, whether it be related to an economic event or an unfortunate human capital event." Taking the initiative on succession planning is still far from commonplace. But executives such as Merrill are indicative of the industry's changing attitudes toward what has often been a sensitive issue in the industry.

"For the most part, we've seen a positive shift by most firms in proactively addressing succession planning," says Anthony Breault, senior real estate investment officer at Oregon State Treasury. "Particularly for those firms that intend to continually raise closed-end funds as part of their ongoing business model, many GPs have learned a standard due diligence item on behalf of both LPs and consultants is the depth of team, profit sharing, incentives, and eventual succession planning. Raising a fund every 24 to 36 months has meant that these shops have had to continually address this issue and learn to proactively discuss the topic with both prospective and existing investors."

Yet private equity real estate firms often still struggle with tackling generational succession planning head-

on. “It continues to be problematic for the industry,” says David Rubenstein, founder and senior managing partner at Philadelphia-based private real estate investment firm Rubenstein Partners. “It’s part of the psychology of getting older. When I was 40, I thought 50 was old. People don’t psychologically accept their current age as old. So succession planning can quickly become next year’s thing, let’s wait until next year.”

Part of this mentality has to do with the nature of the real estate industry itself. “Real estate at its core is entrepreneurial,” says Jennifer Novack, head of the global real estate practice at executive search and talent advisory firm Sheffield Haworth. “If you’re an entrepreneur, you’re an entrepreneur forever.”

Because of this, the topic may not necessarily be brought up by the founders themselves. “The talent may push the issue more than leadership,” says Novack. “A lot of talent is trying to figure out, ‘what is my path at this firm?’”

Succession planning will be a topic that will come up more and more over the next two to three years, adds Novack. “There are many founders of a particular vintage that may be moving on,” she says. “We’re entering a time period where over the next five to 10 years, you’re going to see a lot more data points.”

Already, a number of the top private equity real estate firms have developed or implemented succession plans in the past couple of years.

Triggered by a spin-out

Firm: Aermont Capital

Headquarters: London

Year founded: 2007

Founder: Léon Bressler

Successors: Nathan Shike, Paul Golding, Vincent Rouget

Succession plan: Succession planning at recently-renamed private equity real estate firm Aermont Capital officially took form in 2015 when Perella Weinberg Real Estate began its spin-out from New York investment manager Perella Weinberg. It was then that Shike, Golding and Rouget were promoted to partner. It could be argued, however, that the trio were lined up to take the baton from the European real estate investment doyen well beforehand. Shike and Rouget have worked with Bressler since the launch of the firm’s first opportunity fund in 2007 and Golding since 2010. While Bressler currently has no plans to relinquish his role as managing partner – his personal commitment of €17 million to its third fund is evidence of that – the succession plan is well ensconced in the aforementioned trio. Each is now a key man in the firm’s fund documents and also a co-investor of personal wealth. “It is clear now that this is more and more a collective achievement,” Bressler tells PERE, “and that will be the recipe for long-term success.”

The one-man show

Firm: Lone Star Funds

Headquarters: Dallas

Year founded: 1995

Founder: John Grayken

Successor: André Collin

Succession plan: In early 2014, Lone Star named André Collin, formerly its president of the Americas, to the newly created position of president, responsible for the firm's global operations across the US, Europe and Asia. The promotion would allow Grayken to focus more on sourcing investments and developing the overall strategy for the firm, according to an investor note at the time, but it also was said to be a response to investor pressure for Grayken, then 57, to name a successor. For an approximately five-year period prior to Collin's appointment, many Lone Star investors were understood to have expressed concerns to Grayken that the firm's entire business model was closely controlled and dictated by one person – Grayken himself. "It took some time before he was comfortable that Andre was a successor he could place his trust in and delegate a number of the job functions," one source said.

The 'hit by a bus' scenario

Firm: Global Logistic Properties

Headquarters: Singapore

Year founded: 2009

Founders: Jeffrey Schwartz and Ming Mei

Successor: Ming Mei

Succession plan: When most firms think of succession planning, they usually think of an executive retiring or leaving to join another firm. Rarely do they consider the possibility of that person passing away prematurely – or what is also known as the "hit by a bus" scenario.

But that is what happened when Jeffrey Schwartz passed away at the age of 55 in November 2014 after battling cancer for a year and a half, leaving Ming Mei, then 42, to run the firm alone. Prior to co-founding Global Logistic Properties, the two had worked together at ProLogis, where they both helped to build up the industrial real estate company's Asia platform. Schwartz was said to have acted as a mentor to his younger colleague during their days at their previous employer.

Given the 13-year age difference between Schwartz and Mei, succession planning effectively was built into the firm. After leaving ProLogis, Schwartz and Mei co-founded GLP together by buying ProLogis' industrial portfolio in Japan and China in partnership with Singapore's sovereign wealth fund, GIC. Mei also was in an active leadership role long before Schwartz's passing: when the company was listed on the Stock Exchange of Singapore in 2010, Mei became chief executive of GLP, while Schwartz assumed the title of deputy chairman.

Other examples: But while Schwartz's passing was untimely, GLP had some time to prepare during his illness. Angelo Gordon, however, was rocked by the sudden deaths of global head of real estate Keith Barket, who was the firm's global head of real estate, and Ronen Katz, a vice president and rising star on the real estate team, in 2010. The two died within weeks of each other – Barket, 49, of a rare form of stomach cancer shortly after his diagnosis, and Katz, 27, in a motorcycle accident. After Barket's passing, Adam Schwartz and Wilson Leung – both of whom had joined the firm in junior positions – were elevated to jointly run Angelo Gordon's global real estate business. The firm "has a culture of bringing people up

through the ranks,” said one industry observer. “They’re a great poster child for succession planning.”