Leadership Best Practices

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By Paul Bubny

Watch the Revolving Doors

Brett White. Arthur Mirante. Thomas D'Arcy. Joseph Azrack. Ethan Penner. Aside from their being among the industry's heaviest hitters, each has made a move in recent weeks or announced plans to do so.

White will step down as CEO of CBRE at year's end, while Mirante, who at one time was president and CEO at Cushman & Wakefield, has left his longtime employer to establish a New York City office for Toronto-based Avison Young. In the wake of BGC Partners' acquisition of Grubb & Ellis and the brokerage's absorption into what is now known as Newmark Grubb Knight Frank, Grubb CEO D'Arcy departed to take the reins of American Realty Capital Healthcare Trust. Azrack, a 30-year industry veteran who has served as global head of the real estate group at Apollo Global Management since 2008, has reached an agreement to transition from managing partner to chairman of the group, a position with less day-to-day involvement, according to an SEC filing. Often called "the father of CMBS," Penner has stepped down from the presidency of CBRE Capital Partners, although he will continue to serve through October as advisor to group's funds.

Were these moves individual responses to company-specific circumstances, or examples of broader trends? It's some of both, recruitment experts tell Real Estate Forum, and we can expect to see more of these comings and goings in the near term.

"This is an indicator of the continuing change that's occurring in the service business," says Anthony LoPinto, New York City-based global sector leader for real estate at search firm Korn/Ferry International, and founder of SelectLeaders. He expects the arrivals and departures to maintain the pace over the next year or so "as the markets continue to evolve and service firms try to align their organizations with where the business is, which is dynamically changing."

While noting that "deeper dynamics" may have been at play in specific instances, Matt Slepin, founder and managing partner of Terra Search Partners in San Francisco, similarly sees the flurry of executive changes in broad terms. "There's a trend," he says, driven by the fact that though "things aren't perfect," the economy and industry are recovering from the worst of the downturn.

"There was a period of several years where companies cut back heavily and then froze their teams solid," Slepin tells Forum. "There was very little shifting around. Also, most top-ranked professionals look to make changes in their careers at least every decade or so, "and very senior people are now saying, 'I'm ready to do something different. Now that there's some clarity and vision on where the industry's going, it's time to go.'"

Another factor is the advent of up-and- coming service companies. Until recently, for example, Avison Young had "no meaningful presence" in the US, he says, "and now they're building a big team. There are other names that you just didn't hear before, and they're going to create management teams and recruit big names to join them. Arthur Mirante is a perfect example."

Mirante said as much in a recent interview with John Salustri, content director for ALM's

Real Estate Media Group, publisher of Forum. Asked why he and other industry notables have been migrating lately, Mirante cited the economy as well as corporate cultures. “We went from a terrible recession to one of the weakest recoveries ever,” he said at a RealShare conference in May that marked his first industry event as head of Avison Young’s New York office. When brokers’ numbers begin to flatten, “they start looking for different platforms.”

As for their employers, Mirante added, “You’ve heard of ‘too big to fail.’ Well, this is more like ‘too big to manage,’ especially among public firms that can get so distracted by quarterly earnings and capital events that they lose touch with the human element.” He added that while “C&W is an institution with 13,000 people,” his new employer is “highly entrepreneurial, building its business step-by-step and client-by-client.”

The industry is becoming more institutional, Slepin points out. Accordingly, “new or existing platforms want to recruit big-name people. That’s not much of a change. But now, firms design their senior management teams to have four, five or six people at the top who are just better. The overall quality of senior management is increasing.”

Another area that’s gaining more attention than in former years is succession planning. When White’s resignation was revealed in March, CBRE announced his hand-picked successor, president Robert Sulentic, who’d been chief at Trammell Crow before CBRE acquired it in ’06. LoPinto notes that while the news came as a jolt to many, it was no surprise at CBRE headquarters.

Shortly after the announcement, White told the Wall Street Journal: “How many CEOs would like to have a successor behind them who has been a CEO of one of their public competitors, who has worked side-by-side with them for five years? It’s a really effortless and elegant handoff.”

Public companies—including REITs and service firms such as CBRE—have become “very focused on succession planning,” says LoPinto. “It’s not unusual to see something like the transfer of power at CBRE. It’s strong evidence of good management.”
In line with LoPinto’s observations, a research paper by Chicago-based Ferguson Partners Ltd. cites such preparation as a priority by board chairmen and senior directors, and not only to make sure someone is ready to take charge when the firm’s leader retires. “Every company should have an emergency plan that identifies people who, in a crisis, could immediately step in to become the CEO,” according to Ferguson. The study also found that the boards of publicly traded real estate companies are putting more emphasis on industry experience among directors—partly because not a few CEOs have come from the boards.

Over the two decades since the Resolution Trust Corp. era, says Bill Ferguson, chairman and CEO of Ferguson Partners, “there have been 130 CEO changes” at publicly traded CRE firms. “That’s 130 over 22 years, so you’re looking at about 5% turnover in the CEO suite among, say, 175 companies. If you compare that number to corporate America, it’s actually more conservative than what we’ve seen” among public firms generally.

“We’ve also seen that a lot of the CEOs were our founders, and they’re a little more entrenched than the next generation of leadership may be,” Ferguson tells Forum. “It’s going to be interesting to see exactly what’s going to happen once this founder generation retires, whether we’re going to have more transitions than we’ve had.”

Although some of the recent C-suite turn- overs have been the result of industry consolidation, Ferguson is skeptical that we’ll see much more of this in the near term. “The biggest issues out there relative to consolidation—putting aside the pricing issues—are the social ones,” he says. “When one CEO is ready to retire and the other is not, there’s a much greater likelihood of that merger coming together. Where you have problems is when you have two CEOs who have a lot of runway, and neither one wants to acquiesce the top spot.”

All in all, the industry is getting better at succession planning, by identifying senior executives who look like good candidates for the chief executive’s chair. “Equity Residential is a good example: David Neithercut started as the CFO, was promoted to COO and ultimately became the CEO,” says Ferguson. “What our industry—or at least REITs—are doing better is taking good capital markets CFOs and developing them talent-wise into CEOs.” It’s a logical career path for both boards and incumbent CEOs to consider, he adds.

Of course, something very different can happen along the career paths of would-be CEOs. Namely, their aspirations within that company can be thwarted, leading them to look elsewhere. “When we’re doing a CEO search, and the client is willing to consider a number two who’s ready to be a number one, and that person doesn’t have this opportunity in the company they’re in, it’s hard to prevent” the aspiring CEO from leaving his or her current employer, Ferguson says. “That’s something that a good number two really wants to do.”

At Cassidy Turley—among the largest of the companies that came into being amid the recovery—Peter Hennessey sees a number of factors that will determine whether a key player will stay or go. Among these, of course, is compensation—“not so much what they’re making, but whether they feel they’re being fairly rewarded,” says Hennessey, president of the New York region at Cassidy Turley and himself a recruit, having made the move from a high- level position at Jones Lang LaSalle in 2010. “If they’re not happy with the environment, it doesn’t matter what they get paid.” Job satisfaction and a sense of being challenged by the work are key factors, he adds.

At the hiring end of the spectrum, Hennessey says that above and beyond technical skills, he looks for “correlation with our core values,” including teamwork, respect and integrity. He seeks, for example, to determine whether a candidate actively participates in team-oriented endeavors outside the office, such as playing organized sports or volunteering with nonprofit groups.

Similarly, Slepin says top executives can’t be considered in isolation. “When you recruit someone at a senior executive level, it's not about the box they sit in—it's about the context of the box," he says. "It's not about what's the perfect CFO, but what's the perfect CFO who fits both within the CFO's realm within that organization and also with the skill sets across the senior management team." It's a consideration that applies both to external and internal candidates.

"There's no knee-jerk answer that says 'let's always promote from within,' or a hard-and-fast rule that you've always got to look outside," Slepin says. "Organizations that look only outside are not respecting succession planning within, but those that look only inside risk having no new blood and not bringing in fresh perspectives from their competition within the industry."