Passing the baton

Real estate firms develop succession plans to address leadership changes head-on

by Andrea Waitrovich

When leadership changes occur — planned or not — a firm's culture and management of the transition determine the future of a company for its investors, its employees and its successor-owners. The loss of a founder can be significant and dramatic, but companies can plan in advance how to address a leadership change.

Real estate is an industry reliant on relationships, which could be one of the reasons why implementing a succession plan is a little bit more challenging. Many investment decisions are a result of deep personal relationships cultivated over many years. In addition, changes of key personnel may cause an institutional investor to place an investment manager on a watchlist for further review. This makes the transfer of power to the next generation of leadership more difficult and complex.

"With clear planning, communication and objectives set out prior to any succession taking place, the next generation of leaders can effectively manage this transition and work to successfully balance new ideas with old ones," says Randy Banchik, co-CEO, with Joe Dykstra, at Westwood Financial.

In addition, a privately held real estate investment company's succession plan often is closely tied to the estate plan of the primary owners and shareholders. The value of the company and the founding families' assets and real estate interests often are addressed in combination. If the company cannot be transferred to future generations, the founders need to identify means by which they can recognize value from the company for their own estates, while providing for the continued effective management of investment assets.

Keeping it in the family

Family-owned real estate firms have an easier model for CEO succession planning, as most simply appoint a family member to manage the firm. Some heirs apparent begin their careers within the company, which helps groom them for leadership advancement.

The LeFrak Organization, for example, was founded in the early 1900s and has a history of passing control from father to son. Chairman and CEO Richard LeFrak worked 35 years within the company before he was elected chairman and CEO following the death of his father, Samuel LeFrak, and Richard's sons are now involved in the family business, as well; James serves as vice chairman and managing director, and Harrison is a managing director of The LeFrak Organization.

When the CEOs of real estate firms inherit the company, the situation is successful when the family member has the skills to lead. It is important to note the skills needed to be the public face of a company, promoting it to investors and the outside world, and the skills needed to be a leader and manager of people are not necessarily the same, nor are they necessarily possessed by many real estate professionals — which means those who do have both sets of skills can gravitate into seemingly indispensable roles at the forefront of a company.

In January, President Donald Trump stated he wants a couple of "his fellow New York billionaire real estate developers to oversee his plans to spend $1 trillion to improve infrastructure," according to an interview with *The New York Times*. President Trump said he would appoint Richard LeFrak and Steven Roth, chairman and CEO of Vornado Realty Trust, to lead a commission that will make decisions on infrastructure projects.

The Trump administration's plan to spend $1 trillion repairing highways, bridges, roads, airports, dams and other infrastructure — a centerpiece of the president's plan to boost hiring and the economy — has not yet been introduced as legislation. But what might happen to these real estate firms if their CEOs were to leave, especially those who are the face of family-owned firms?

There is a difference in transitioning to new management for the detached leadership of a corporation versus the head of a family-held firm. Family-member executives typically are more emotionally attached to the business, and the ownership comes with the economic realities of an estate, including a desire to transfer value to future generations.

Promoting from within

For nonfamily-owned firms, promoting from within allows for the continuity of traditions and relationships through the new leadership. Today, a lot of corner offices are occupied by loyal employees who have worked at their firms for decades. And loyalty is great, but the new longevity of careers can create a problem.

Almost 20 percent of Americans 65 and older are still working, according to May 2016 data from the U.S. Bureau of Labor Statistics. When asked to describe their plans for retirement, 27 percent of Americans said they will "keep working as long as possible," according to a 2015 Federal Reserve study. Another 12 percent said they do not plan to retire at all. As a group, the baby boomer

Joining the C suite

Following is a selection of U.S. real estate firms that announced CEO placements from December 2016 to April 2017.

Ashford Hospitality Trust, February 2017
Douglas Kessler was appointed CEO. Monty Bennett, the company's previous CEO, remains chairman. Kessler has been with the hotel REIT since its IPO in August 2003, serving as president since 2009.

Associated Luxury Hotels, March 2017
Josh Lesnick was named president and CEO of Associated Luxury Hotels, the parent company of Associated Luxury Hotels International and Worldhotels. Lesnick came to Associated Luxury Hotels from Wyndham Hotel Group, where he served as executive vice president and chief marketing officer.

BBG, January 2017
Chris Roach was promoted to CEO. Former chairman and CEO and company founder Diane Butler left the company but remains a member of the board. A founding shareholder of the firm, Roach joined BBG as a partner in 2009 before being elevated to principal and senior managing director in 2012, and to his post as president in January 2016.

Bluerock Capital Markets, December 2016
Jeffrey Schwaber was appointed CEO of Bluerock Capital Markets, the managing broker-dealer for Bluerock Real Estate's suite of investment products and funds. Schwaber joined Bluerock from Griffin Capital Securities, where he served as president and head of distribution.

Broadstone Real Estate, February 2017
Christopher Czarnecki was promoted to CEO of the firm and its two private REITs — Broadstone Net Lease and Broadtree Residential. Previously, Czarnecki was president and CFO of Broadstone Real Estate and Broadstone Net Lease and executive vice president and CFO of Broadtree Residential. Amy Tait, co-founder, chairman and CEO of Broadstone Real Estate, assumed the role of executive chairman and CIO of the firm and its REITs.

Clarion Partners, April 2017
David Gilbert was named CEO, succeeding Steve Furnary, who assumed the role of executive chairman and continues to chair Clarion's executive board and board of directors and serve on the firm's investment committee. Gilbert retains CIO responsibilities.

Dividend Capital Diversified Property Fund, April 2017
Dwight Merriman III was appointed CEO of Dividend Capital Diversified Property Fund, replacing Jeffrey Johnson. Merriman has more than 30 years of real estate investment and development experience, and serves as the head of real estate for Black Creek Group. He is also the CEO and a member of the board of Industrial Property Trust, a Dividend Capital–sponsored nonlisted REIT.

FelCor Lodging Trust, February 2017
Steven Goldman was appointed CEO and joined the REIT's board of directors. Goldman previously was a managing director at Starwood Capital Group, where he served as president of the SH Group affiliate.

Gemini Rosemont Realty, March 2017
Don Henry was named CEO, succeeding Michael Mahony. Henry previously was COO and CIO, and he continues to perform CIO functions. Mahony has taken on the role of president and chief strategy officer.

Mack-Cali Realty Corp., April 2017
Michael DeMarco was named CEO, replacing Mitchell Rudin, who took a position as a vice chairman of the firm. Both executives joined Mack-Cali in June 2015, with Rudin as CEO and DeMarco as president and COO.

Monument Real Estate Services, January 2017
Gregory Lozinak was promoted to CEO; he joined the firm in January 2016 as COO. Former CEO Stuart Zook assumed the newly created role of CIO, focusing on advancing the firm's strategic growth and investments. Monument Real Estate Services is an asset and property manager and value-add company for the multifamily markets.

generation is healthier and more active than prior generations. According to a 2016 Transamerica survey, about 36 percent of respondents said they worked past age 65 mainly because they enjoyed their jobs or wanted to stay involved. This creates a conflict for members of the next generation, who are more than ready to step up as leaders within the company.

"Again, it is great that us baby boomers are working longer," says Matt Slepin, managing partner at Terra Search Partners. "But taken to an extreme, it can cause a problem."

Slepin adds, "First, we know a lot of companies that crow about having a team that has worked together for 20 years. It shows stability and a positive corporate culture. But too much stability hurts on the other side. It can create a brittle versus resilient culture that is resistant to change, as well as a company that does not have great cross-fertilization from competitors. These teams are not used to new ideas, new people — and succession planning is more often not in place."

The loss of a founder can be significant and dramatic, but companies can plan in advance how to address a leadership change.

A good executive of any age knows when change is needed and beneficial. It is possible to preserve the skills and contributions of an older generation while still passing responsibility and opportunity to capable, younger blood.

New kid on the block

If there is no relatively new, outside talent in any of a company's senior positions, the organization runs the risk of mono-vision versus a true understanding of itself within the context of the market. Hiring from the outside provides an opportunity for the company to reinvent itself and creates momentum through new ideas and a fresh approach.

"Bringing in at least occasional outside talent brings outside perspective and relativity to a company," says Slepin. "Again, the opposite extreme is a problem — when companies only hire from the outside rather than promote from within, there is the opposite problem. It is important to achieve the right balance — again, think resilient versus brittle in terms of inside and outside perspectives, amount of change, etc."

Sometimes when an outsider is brought in to take over directly as leader, it indicates either there is a problem to address, or a major shift in strategy or a certain skill base is needed. And there was no one suitable to promote in-house.

"If succession is managed well, outside talent will have been absorbed into the organization before the succession occurs," says Edmund Craston, managing director at Rockspring Property Investment Managers. "Promoting successfully from within typically indicates a stable and well-planned succession."

Craston describes his hiring at Rockspring as part of a bigger plan. "The appointment of a new managing director from outside Rockspring was only part of an ongoing approach to succession," says Craston. "The business has also gone to great lengths to empower others outside our executive committee and involve a broader group in leading various areas of the business and contributing to the overall leadership process."

The combination of hiring an outsider and, more important, empowering a broader group reduces the reliance on and dominance of an individual or small group of leaders, and it helps to develop the right leadership skills and business understanding in a broader range of people.

Craston adds, "Rockspring had a long-established leadership, and it was growing and evolving as a business. The benefits of further expanding the leadership team by bringing in an outsider with different experience and perspective were apparent to all. I was, therefore brought in as managing director and part of a small executive committee well before anyone else was ready to step down."

Craston said Rockspring has successfully handled in recent years the departure or retirement of three people from the leadership team that was in place at the time of its buyout in 2004, including Rockspring's founder.

"We try to apply the principles of succession planning, empowerment [within boundaries] and skills development in the various areas of our business," adds Craston. "It is not just for the leadership team, and we have successfully managed succession in a variety of roles and teams in recent years."

Next generation

Companies should always be grooming their next-generation leaders. The culture of the real estate business needs to have this mindset.

"Otherwise, the next generation doesn't see opportunities for itself. Not having a game plan means that the next generation is more likely to leave because they don't realize that they have the opportunity to be future partners and leaders," says Mary McCarthy, managing director with Terra Search.

The keys to grooming the next generation of talent are an investment of time, mentorship and the ability to hire the right people. Culturally, a firm needs to have avenues in place that provide individuals with the opportunities and support they need to grow and develop in their roles. Companies should be constantly identifying their top performers, providing mentorship and a clear path of potential growth, which should in turn motivate these employees and increase their value to the company.

"This is especially true for the younger generation of talent," says Westwood Financial's Dykstra. "These individuals are constantly drifting toward other industries and do not have the same type of loyalty and tenure of generations past. If there is not a direct path of growth, the top and most marketable talent needed for an effective succession plan will be the first to leave."

By creating opportunities to mentor these young individuals and get them excited about their roles, companies will be able to hold on to top employees and groom them for future succession. But another reason real estate professionals are not integrating succession plans as actively as they should is the evolution of the talent pool.

"Real estate is a much more mature business, as opposed to the tech sector," says Dykstra. "In the past, the youngest and brightest talent was drawn to the real estate sector, providing ample amounts of top-notch talent. Today, the top young talent is being pulled to other 'hot' industries such as tech, which is making it increasingly more difficult for companies in this sector to create effective succession plans."

Transitioning leadership

In 2016, Westwood Financial Corp. transitioned from a family-operated real estate syndication business with private investors, to an institutionally structured, fully integrated and self-sustaining real estate operating company. As part of this transition, the firm created a succession plan and named Randy Banchik and Joe Dykstra co-CEOs. Banchik and Dykstra had been with the firm for 24 years and 27 years, respectively.

"We realized that the company's previous structure was closely intertwined with the two founding principals and needed to be restructured in order for successful operation into the next generation," says Banchik.

Westwood recently instituted the first part of its succession plan, which restructured the entire firm in a way that would allow it to continue after its founding leadership departs. Until recently, the firm owned its properties through a multitude of individual limited partnerships, operated by a common set of general partners and managed by Westwood Financial Corp. After the restructuring and consolidation, the new limited liability company owns both the management company and 75 different properties in 14 different states, in a single $1.2 billion portfolio of retail assets.

As part of this restructuring, a board of directors was created. The founding partners transitioned into board roles, and Banchik and Dykstra transitioned into CEO roles. The founders are still involved in an advisory capacity, but the co-CEOs are responsible for the day-to-day operations of the entire firm.

The second phase of the firm's succession plan will be to implement a strategy for developing the next generation of leaders to follow Banchik and Dykstra.

The "first component of this succession plan has created an opportunity for the company to continue for generations to come, which was one of our main goals," explains Dykstra.

— *Andrea Waitrovich*

Succeeding at succession

It is best to prepare and think about a succession plan by identifying future potential leaders and the attributes they need. If they are not within the firm, start recruiting them. Your business culture should make people feel empowered, challenged and tested. Businesses should keep assessing who is capable — or not — because requirements may change.

When it appears a transition will be imminent, a founder or CEO should begin to plan his or her retirement, so the firm is prepared to cope with the leadership change. And the firm needs to be able to manage the departure in an orderly and calm manner. But if a business evolves to where a firm cannot cope without a certain leader, then the business is not as solid or sustainable. Craston adds, "Those who are unwilling or uncomfortable to surround themselves with a strong and capable leadership team are not true leaders." The whole point of maintaining a broad team of leaders and potential leaders is so a departure, or change of leadership, will not be disruptive.

Every company needs a succession plan. Succession planning is important to protect the future of a company — for its investors, for its employees and for its successor-owners, too. Firms must communicate their succession plans clearly and carefully to avoid any uncertainties or confusion. In this business of relationships, it is critical firms paint a clear picture early on for their investors to assure them their assets will be handled as expected. ❖

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