



Super senior advice

Grey hair, no hair, connected or just plain smart, senior specialist consultants are in demand by institutional investors.

By Robin Marriott

Theodore “Ted” Leary, a Los Angeles-based former chief of staff to a US Senator and a veteran real estate professional with 36 years experience, had retired and was spending most of his time on the golf course when the phone started ringing again in 2008.

The calls came at first from an old client of his, the California State Teachers’ Retirement System (CalSTRS), and later from the California Public Employees’ Retirement System (CalPERS). Both giant pension plans had growing problems connected to their real estate portfolios, and conversations became serious enough for Leary to put his golf clubs in storage, come out of retirement and set up Crosswater Realty Advisors as a real estate workout consultancy service. He only half-jokes when he says he became like a “marriage counsel-

lor,” given the stresses and strains that emerged within partnerships.

“Crosswater really was created for this kind of world a couple of years ago,” Leary says. “I assembled a group of experienced people, all in our early to mid-sixties or older. In fact, we joke that we don’t give out business cards, rather we give out copies of our Medicare cards. But we are not a traditional consultant like The Townsend Group or Courtland Partners or the new Pension Consulting Alliance (PCA). We are workout and restructuring super-senior advisors.”

Given the mess that many limited partners found themselves in after the credit crunch, it is hardly surprising that institutional investors turned to tried and tested bill-by-the-hour super-senior consultants – even if they were retired.

Go-to guys

Super-senior consultants are in demand from LPs, but not all are created equal. Here *PERE* presents a selection of professionals in the US and Europe that are among the movers and shakers at boutique specialist firms



Ted Leary
 Founder and president
 Crosswater Realty Advisors
 Los Angeles

Leary began his real estate career in 1975 with a focus on highly complex workout assignments for major financial institutions. In that role, he resolved a wide variety of property problems in the US,

Canada, France and Puerto Rico. Prior to coming out of retirement to found Crosswater, he served as the chairman of Lowe Enterprises Investment Management, the institutional advisory arm of Lowe Enterprises, where he worked for 22 years.

Seasoned players

By their nature, super-senior consultants in private equity real estate tend to be extremely seasoned professionals. Often, they are people who have been fund managers themselves at some point in their career or may even have worked at an institutional investor. Better still, the ones that investors turn to preferably played little or no part in the mistakes that led to huge problems within their real estate portfolios in the first place.

A sample of Crosswater's work gives one an idea of what kind of work special consultants can get involved in nowadays. The firm has been involved in an array of dicey situations, including settling a serious dispute between a client and a manager, negotiating a reduction of a client's commitment to an underperforming commingled fund with a concomitant fee reduction and representing clients on LP advisory committees to instigate reforms to partnerships. It also has helped a large investor in developing new real estate strategies and in reconfiguring its management team. Leary said, in his case, it helped to have once been a fund manager because, when he went into certain situations, the GP knew he could empathise.

Crosswater is a specialist in workouts, but it is not alone in providing super-senior advice to limited partners. Though the field is certainly not huge and the firms are not as well-known as larger general consultants like Townsend, Courtland, PCA, Mercer and Callan Associates, in many cases, they have been around just as long, if not longer.

Roy Schneiderman, founder of San Francisco-based boutique practice Bard Consulting, is a good example. He is not yet of retirement age, but he has been imparting real estate consulting services for 25 years and has an impressive book of clients. As an "independent fiduciary," Bard Consulting provides niche consulting services to both CalSTRS and CalPERS, plus the New York State Common Retirement Fund and an undisclosed sovereign wealth fund.

Consultants like Schneiderman may have been operating for many years, but he points out that independent fiduciaries

have been heavily utilized by major public pension funds for less than a decade. So it is not as mature of an industry as one might think.

In 2002, CalSTRS became the first major public pension fund to use boutique real estate consultants en masse. The pension felt it needed more depth of resources than any one firm could provide, so it set out to appoint a bench of what it dubbed independent fiduciaries. In a sense it coined the phrase "independent fiduciary." A few years later, CalPERS did the same thing by appointing a bench of small specialized consultants, the difference being it called them special project consultants. The New York State Common Retirement Fund followed suit.

From 2002 onwards, the job of independent fiduciaries was mainly to provide consultancy services on new investment strategies. For example, CalSTRS wanted specialist advice on a land programme. The work also included carrying out due diligence on fund managers because, at this time, investors were looking to put a lot of money to work. By 2007 and 2008, however, that kind of mandate had disappeared, and the workout projects seeped in.

Schneiderman says even now there are plenty of troubled assets and relationships around, but he notes that work is beginning to return to manager review projects again. "Now, it is a mixture of workout work and new manager reviews," he says.

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Experience counts

In addition to Crosswater and Bard, another small but respected consultancy firm is ORG Real Property. Established in 1999, ORG is led by Ed Schwarz, a former Townsend professional, and Steve Gruber, a former senior real estate investment officer for the Oregon Public Employees' Retirement Fund.

Yet another notable firm is Real Estate Fiduciary Services, run by John Baczewski. In 2009, the firm set up an asset management alliance by combining with seasoned professionals



Roy Schneiderman
Founding principal
Bard Consulting
San Francisco

Schneiderman set up Bard Consulting in 2001, but he has been providing real estate consulting services for pension funds and various public-sector entities for the past 25 years. Prior to founding Bard, he

was a partner and chief operating officer for Sedway Group, which was acquired by CB Richard Ellis in 1999. Current clients include CalPERS, CalSTRS, the New York State Common Retirement Fund and an undisclosed sovereign wealth fund.



Vikram Aggarwal
Director, private markets
B Finance
London

Aggarwal is responsible for researching private equity, real estate and infrastructure fund investments. Previously, he worked at HSBC, where he was part of a team that advised on unlisted real estate

funds totaling around £2 billion in commitments. He also worked as an advisor to HSBC Bank Pension Trust on its £1 billion direct real estate portfolio and co-founded the HSBC Real Estate Multi-manager team.

at Black Diamond Capital Advisors, Lester & Associates, Vector Real Estate Advisors and Richardson Development Group in response to the growing number of real estate investors, as well as lenders and owners, with financially distressed and underperforming assets.

“It seems the larger the investor is, the more it likes small niche consultants,” Schneiderman notes. Yet, there is no question that what institutional investors value are experience and a network of contacts.

Bas van den Ijssel is a Dutch professional with more than 17 years of real estate experience as a portfolio manager at the Dutch pension fund for constructors, BPF Bouwinvest, and more recently worked as a senior fund manager for international real estate at Mn Services. He also has a fat contact book of limited partners and fund managers.

“What many institutional clients want is experience and a network – people that know other limited partners and funds managers,” van den Ijssel says. “The majority of pension funds are under-resourced and do not necessarily have this.”

Some of the mandates that van den Ijssel and his firm, Almazara, have been working on include managing unlisted investments in Asia for the Netherland’s Doctors Pension Funds Services. More recently, he has embarked on a search for listed property managers on behalf of Doctors. Almazara also has a specific US search ongoing for one Dutch pension fund and a project on internal funds at another Dutch pension fund. He also is fronting a group of limited partners in a commingled fund in their discussions with an Asian general partner about the future of the fund.

New York-based Hodes Weill & Associates is another small crew of highly experienced real estate professionals. Though the former Credit Suisse placement agents set up shop in 2009 principally to advise general partners, the firm has taken on assignments such as sitting in on LP advisory boards when LPs have wanted an outside counsel.

Younger guns

Beyond these professionals with years of experience behind them, there is another set of senior consultants that are se-

nior in terms of their access and responsibility to advise large pension funds that wish to make investments. These consultants might fit more readily into the “young, energetic and smart” category. They are not necessarily private equity real estate rock stars and they keep a low profile, but they are respected and trusted for what they do by large and significant clients.

Richard Urban at Cardano in London used to be at CB Richard Ellis Real Estate Finance until he joined the Netherlands-based risk manager in 2007. At the time, Cardano was expanding its range of services and hired Urban as a kind of roving global real estate consultant to its clients, which are mainly large UK pension funds with more than £1 billion in assets.

Urban says he sees his job as bringing global investment opportunities to clients. When the market went “downhill” from 2007 onwards, he spotted an opportunity for clients to invest in structured products rather than bricks and mortar. This was because some residential mortgage-backed securities and commercial mortgage-backed securities seemed mis-priced.

Urban surveyed the market for the best managers to buy those bonds at attractive prices, resulting in Cardano clients investing in a European long-only structured finance fund and a European- and US-focused long/short structured finance fund, both of which predominantly targeted RMBS and CMBS. Both of those investments, he says, have produced high returns. Now, he is close to securing an investment in the real estate loan sector.

Vikram Aggarwal of B Finance in London is another young-gun consultant in Europe. He was an associate director at HSBC Specialist Investments from 2003 to 2008 and co-founded the HSBC Real Estate Multi-manager team. “We assist clients in a number of different ways, from due diligence on a particular fund or funds to creating customised programmes, sourcing secondaries opportunities and pure one-off searches,” he says.

B Finance’s model is to charge the funded/winning manager a success fee for searches, which is the same for each manager and fully disclosed at the outset to avoid any con-

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Benjamin Baumann
Vice president
SCM Strategic Capital Management
Zurich

Clients of SCM consist mainly of Swiss pensions, such as the Nestle Pension Plan, the City of Zurich, Canton of Zurich and PKE, the Swiss Energy Pension Plan. Baumann is called on for advice on man-

ager selection, tax structuring and fund monitoring and reporting.



Oliver Schebela
Director for alternative investments
Feri Institutional Advisors
Bad Homburg, Germany

Schebela is responsible for the real estate private equity activities at Feri and manages fund of funds products for institutional and high-net-worth clients. His clients are mainly German institu-

tions such as insurance companies, pension funds or banks that offer such services to high-net-worth clients. In 2009 and 2010, the firm convinced two clients to set up an opportunistic real estate mandate.

flicts. However, for due diligence on a single fund or longer-term advisory work, the firm charges the client.

Says Aggarwal: "We encourage investors to think holistically and focus on what they actually are trying to achieve rather than to simply allocate or tick a box. Depending on your objectives, it might be better to invest in the debt rather than the equity. In terms of access, it might be more favourable to invest in a partially-funded secondary opportunity subject to suitability and availability rather than in primaries, or perhaps a blend of both. And where clients are willing to take a longer-term approach and set themselves a high bar, it's sometimes best to do nothing as none of the opportunities available at the time fit your criteria."

Supply and demand

Benjamin Baumann, vice president at SCM Strategic Capital Management, has blue-chip Swiss pensions as clients, and he says pension plans, especially in these difficult times, have time and resource constraints.

"They might even have a small team to cover international real estate, but that might not be enough to cover all issues – program and cash-flow planning, selection of top quartile managers, the negotiation of legal terms and conditions, tax structuring, monitoring of investments and integrated reporting – hence the need for an advisor. That is what we see many pension plans doing. They start out doing it on their own, but often they come to find that they need help on certain issues."

Another trend Baumann observes is what he says is an increasing reluctance by institutional investors to invest in plain-vanilla fund of funds and having to bear the fees associated with such structures, in particular if return expectations are not met. He believes that there is a trend away from such products to more cost-efficient solutions. That, of course, would play into the hands of consultants, though not necessarily just the boutique practices.

All things considered, there do not seem to be many reasons why senior boutique consultants should not continue to

be in demand. Workouts may not last for much longer, but other work probably will.

CalPERS just recently admitted several dozen more consultants onto its real estate bench, according to those in the industry. And, in the past few weeks, boutique consultancy firms have received requests for proposals from both the Arizona State Employees' Retirement System and the Massachusetts Pension Reserves Investment Management Board, which are said to be seeking to appoint a bench of pre-approved consultants for when they might need them. In the case of one of those pensions, it considered approving a bench three years ago but, in the end, hired only a general consultant and another consultant to advise on a debt strategy.

So it seems fresh work is arising, and not even the recent tension surrounding the issue of consultants that also double as money managers should derail that. Last month, CalPERS moved forward with a plan to ban investment consultants from also working as money managers for the pension's investments. Although other large pension plans might copy CalPERS, it seems unlikely to be a death knell for boutique senior advisors because they tend not to manage in-house funds. In addition, it is more of an issue in North America because such a situation is far less common in Europe.

The real issue for super-senior consultants is economics. As several consultants confess, LPs don't pay very well when compared to how much one can earn as a money manager, which is why many larger consulting firms have branched into investment management. The economics therefore probably dictate that the pool of real estate consultants will never be a large one, but neither will it evaporate given ongoing demand.

The bigger picture is that institutional investors are just trying to do one thing – invest successfully. This is the overriding objective for LPs currently, and the one that super-senior consultants can strive to help them achieve in whatever capacity they can. □

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Volker Wiederrich
Chief investment officer
Swisslake Capital
Pfaeffikon, Switzerland

Wiederrich joined Swisslake in 2005 and has managed the placement of investments into numerous real estate private equity funds. The last two to three years have provided the firm, whose clients are

mainly German, with an array of assignments, including counselling limited partners on their existing portfolios.



Bas van den Ijssel
Founder
Almazara
Bussum, The Netherlands

Van den Ijssel has been a portfolio manager at the Dutch pension fund for constructors, BPF Bouwinvest, and more recently a senior fund manager for international real estate at Mn Services.

He left to set up Almazara, which currently counts the Doctors Pension Funds Services, ASR Insurance and Stork Pensioenfond as its clients.