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dialogues



CO-INVESTMENTS: *the* fourth pillar *of* incentives

ALSO IN THIS ISSUE

Taking a pulse on DC capital flows into real estate solutions

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2

Letter from NAREIM

ROUNDTABLE

4



DC flows into real estate solutions

NAREIM spoke with *Clarion Partners*, *JPMorgan Asset Management*, *PGIM Real Estate* and *Principal Real Estate Investors* to get a real-time pulse of the DC market, as well as to understand DC real estate appetite in times of market stress and manager considerations surrounding liquidity and rebalancing.

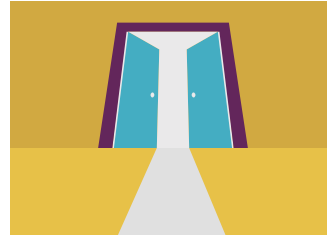
14



Co-investment The fourth pillar of incentives

NAREIM spoke with Tim Kessler, global COO at *LaSalle Investment Management* about why the firm is expanding co-investment eligibility, what it is delivering for the firm, and the pros and cons of expansion.

18



Co-investment Expanding the co-investment opportunity

NAREIM spoke with Lucy Bertsch, Director, Compensation Consulting at *Ferguson Partners* on key co-investment trends among real estate investment management firms, including opening up the co-investment opportunity, loans and downside risks.

ACQUISITIONS

22

Q&A: On the verge

NAREIM spoke with Joe Muratore and Ryan Swehla, principals and co-founders of *Graceada Partners*

30

Housing the workforce

Ken Munkacy, Vincent DiSalvo, Justin Hoogerheyde and Jed Daniel, *Kingbird Investment Management*

37

Serving the middle

Jamil Harkness, *Bailard, Inc.*

ASSET MANAGEMENT

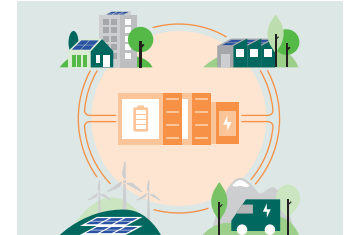
26

Goodbye parking, hello housing

Clay Grubb, *Grubb Properties*

LEADERSHIP

34



It's time to power up

Deborah Smith, *The CenterCap Group*

SUSTAINABILITY

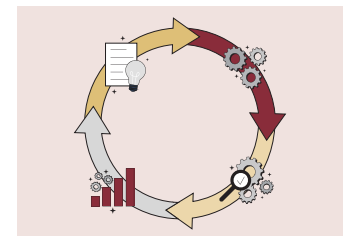
42

Improving seismic risk management

Jason G. Coray, *Partner Engineering and Science*

DATA STRATEGY

46

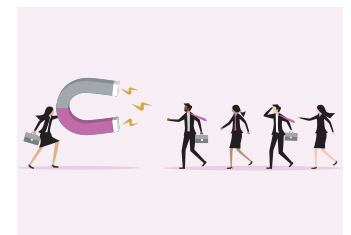


Better asset forecasting

Damien Georges, *RealPage, Inc.*

JEFF BARCLAY FELLOW

50



What young talents want

Jackie Siegmund

The fourth pillar of incentives: Co-investment

*For **LaSalle Investment Management**, co-investment is key to attracting and retaining employees and to aligning employees with clients' interests and the firm's culture. Once limited to select senior executives, opening up co-investment participation to a 950-strong workforce located globally across 23 offices has been a complex operational undertaking.*

*Despite the challenges, **Tim Kessler**, global COO, spoke with NAREIM about why LaSalle is expanding co-investment eligibility, what it is delivering for the firm, and the pros and cons of expansion.*

Key takeaways:

- **LaSalle has opened up 15 of its real estate funds**, comprising a mix of closed- and open-ended funds and separate accounts, to co-investment by employees.
- **Participation has increased 10x**, to more than 300 employees out of a global workforce of 950 full-time employees (FTEs). Of all FTEs eligible to participate, two-thirds are now doing so.
- **A key driver behind the move was CEO Mark Gabbay**, who wanted employees to be aligned to one another versus being a collection of different teams. Getting employees to think like investors is another win. But C-suite buy-in is critical. "Without that conviction, this would not have happened because it is complex, expensive and hard."
- **The biggest challenge relates to eligibility requirements.** In many US offerings, only persons who are accredited investors and either 'knowledgeable' persons or qualified purchasers can invest.
- **Taxes are another challenge.** LaSalle has dedicated resources working full-time on the co-investment program, while also drawing on broader legal and tax teams.
- **Technology is provided by start-up Sidecar Financial**, which automates the processing and workflow for LaSalle, and delivers the user experience to employees.

LaSalle's co-investment philosophy

We went through a leadership transition about two years ago when Mark Gabbay stepped into the global CEO seat. He was leading our Asia-Pacific business before that and employee co-investment was a big part of how he had run the region. Bringing that playbook to the broader firm was part of his global vision for LaSalle.

The strategic rationale is threefold. First and foremost, the co-investment program is a competitive advantage in the market for attracting and retaining talent. We have salaries, bonuses and carried interest, which are standard compensation practices in our industry. Co-investment is the fourth tool in the toolkit when it comes to economic incentives. It's a practice that is not as pervasive across the industry, so it helps us when we offer this to people who otherwise have not had that opportunity.

Second is alignment of interests with our investors. At the end of the day, we're here to perform for our clients. There's no better way to demonstrate your commitment to a product and to a client than investing your own money alongside them. We're big believers in that principle and our clients are believers in it as well.

Using co-investment to shape culture

Third is culture. We're a global firm with many different products that tend to be country- or region-specific with a team

that is focused primarily on executing that strategy. We are a globally integrated firm, but we are also, in some respects, a collection of teams; we believe co-investment is an effective tool to strengthen the bonds between teams, which leads to better collaboration and sharing of ideas.

'Alignment' is a word we use a lot at LaSalle. Alignment with clients is a key feature of this program. Alignment among our colleagues is another one. Employees who invest in products outside their day-to-day remit have another reason to walk down the hall or pick up the phone and call a colleague in another part of the business. It makes us smarter. It also fosters a sense of being part of something bigger.

Another element of the cultural push really emphasized by Mark is this idea of training everybody to have an

“ We are a globally integrated firm, but we are also, in some respects, a collection of teams; we believe co-investment is an effective tool to strengthen the bonds between teams, which leads to better collaboration and sharing of ideas. ”

investor mindset. We're an investment firm and our primary objective is to perform for our LPs. We want employees to put themselves in the investor's shoes. This goes back to that alignment theme as we want all our people, even if they're not in acquisitions or a portfolio manager, to think like an investor.

Eligible employees have the ability to do their own allocations and construct their own custom portfolios. They go through the same thought process that our investors do; they underwrite and evaluate a fund not only on its own merits, but also in the context of their broader portfolios. It functions as a training mechanism to get our people to think like, and be, investors.

Understanding the 'knowledgeable employee' rule

The philosophy and our goal here is to democratize access to co-investment as much as possible: anybody who meets the regulatory eligibility requirements is eligible. We don't, as a matter of policy, exclude anybody from this.

Obviously, we comply with eligibility regulations. What makes the program complicated is those rules are different in every country. And not only are the rules different in every country, but our employees may sit in country A whereas the fund is in country B. Which rule applies? You have to understand the different combinations.

It also depends on the product. We have, for example, products in the US that are established for institutional investors or people who are accredited investors and either qualified purchasers or knowledgeable employees.

For those products, many of our employees participate in reliance on their status as a 'knowledgeable employee.' It is the employee's role that is determinative. Generally, the closer the employee is to investment activities, the more likely the employee is to qualify as a knowledgeable employee. However, policy makers and business leaders in many departments also qualify under the SEC guidance. Our goal is to open up this opportunity to qualifying employees in all departments.

The challenges of expanding co-investment

First and foremost, we had conviction that we wanted to do this. That conviction started at the very top with our CEO, and, without that conviction, this would not have happened because it is complex, expensive and hard. The challenges tend to be primarily in eligibility and taxes.

There's nothing out there that we were aware of, from a technology standpoint, to facilitate this kind of process. When we started, we did most of it manually. We then looked for solutions on the market that could, at least from a process workflow standpoint, make it easier. As we could not find anything that met our needs, we ended up partnering with a start-up company, called Sidecar Financial, to solve this problem. In full disclosure, Sidecar is affiliated with LaSalle's parent company JLL.

We are now live on the Sidecar platform. It has really helped us stay organized and efficient in administering the program. Just as importantly, it has dramatically improved the employee user experience by replacing a cumbersome manual process with a relatively simple digital process in an



intuitive user interface. For example, many people have never gone through a KYC/AML [know your customer/anti-money laundering] process and are not used to signing a subscription document. Sidecar simplifies those steps, which is important because people have their day jobs and are busy. We want to make it easy for them. That was really important.

Technology can't solve regulatory and tax complexity, so those are still big focus areas for us. We have dedicated resources that work full-time on this program, and we draw on the broader legal and tax teams as well in managing those two particular areas. We've invested a lot of resources in our co-investment program; it is so important for us strategically as it is about firm culture.



Employee take up

Co-investment opportunities used to be limited to a very small group, primarily the dedicated fund teams and select senior executives. Now everybody who is eligible is allowed to invest, but it's an individual choice. We have opened up approximately 15 funds consisting of a mix of closed-end funds, open-end funds and separate accounts.

I've been blown away by the enthusiasm with which our organization has embraced this program. I had no idea how much take up there would be. The program has expanded by 10x or more, far exceeding my expectations. There's no obligation, expectation or pressure for anybody to participate. It is entirely intended to be a personal choice, and so far about two-thirds of people who are eligible have decided to participate. We have over 300 participants in the program across the firm today. We do provide co-investment leverage for employees.

Future of the program

Operationally, I want the program to be simple and easy such that none of these technicalities or complexities dictate any decisions. I want it to be easy for the firm to administer and I want it to be easy for employees to make their decisions and allocate capital where they want to allocate capital.

Strategically, we are nothing without our people and our clients. Our vision is that opening up our co-investment program to eligible employees will enable us to attract and retain the best talent; the combination of having that talent with their own skin in the game leads to better performance, which in turn leads to happy investors and a thriving business. I do believe that this program is a foundational element that contributes towards that broader vision for the firm.

We expect to be a high-performing investment manager in all our products globally and you only get that way by having the right people with the right incentives in place. And that's what this program's all about. ♦

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