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REALTY ADVISORS

A WORD CLOUD OR THE FOG OF WORDS?

Over the last couple of quiet holiday weeks I made an effort to clean up my messy office. I had piles on piles of presentation books friends and even strangers had sent me asking that I review them and provide comments, suggestions, criticisms, etc. As I remember fondly the help “veterans” gave me when I started out in the investment management business I try my best to respond to such requests. In addition, I often find them quite interesting to read as it gives me a window on who is out there and what they are doing.

Before filing them last week I again flipped through about 20-25 of them. I quickly realized that they all look an awful lot alike; that it was truly difficult to differentiate one presentation from another. They all blended together after an hour or two of reading.

Having prepared scores of these books for over 20 years and having struggled with ways to differentiate, in a positive way, our firm from others, I knew full well what a struggle it could be. I was/am totally sympathetic with the authors of these books.

There is a new concept of a “word cloud” that I see more and more often on the internet. It’s a visual attempt to show how many words are used in a presentation/book/article/speech/whatever and compare that to clouds from other sources. The more a word is used the larger the font. It’s a clever device (See below a sample Word Cloud from President Obama’s 2011 State of The Union Speech). Not being digitally clever myself I tried on a yellow pad to write down the most popular words used in the 20-25 books I reviewed. As you can imagine they were: “leading”, “value-add”, “team”, “research”, “discipline”, “risk-adjusted”, “high returns”, “fiduciary”, “core-plus”, “unique strategy”, ”lessons learned” (but never “mistakes made”!), “proprietary deal flow” and more.

If I was capable of creating a Word Cloud for each presentation I think I would have seen that most of the “clouds” for the real estate offerings looked very similar.

When my former partners at Lowe and I entered the institutional investment management business in the mid-late 1980s, we were competing against maybe 20-25 firms for attention and investment allocations. Now I have been told that there may be 400, or even many more, offerings in the market place. I can't imagine how difficult it must be to differentiate one's firm (obviously in a positive way) in a market that hyper-competitive. Interestingly, from my personal perspective, of the 20-25 books I reviewed only a small handful succeeded in achieving that goal.

This issue reminds me of a scene in the famous 1959 Broadway musical (and later movie) "Gypsy" about Gypsy Rose Lee, the famous burlesque "artist" (a/k/a/ stripper). When young Gypsy visits the "artists" dressing room for the first time, her fellow, but far more experienced, "artists" sing to her "Gypsy, You Got to Have a Gimmick". Now, of course, I don't want to compare serious real estate investment managers to burlesque "artists", but the three veterans who sing the song have a serious message: In a highly competitive environment you have to be able to positively differentiate yourself from the competition.

For me personally, the prime differentiator is "corporate soul".

Over the past 3 or so years I have been able to review the track records and decision making processes of many real estate advisory firms. My conclusion is that the firms who performed the best in 2007-08-09 made the correct, but hard, decisions to:

- Sell assets
- Trim leverage
- Slow down or even stop investing

They saw danger ahead and took a defensive posture which allowed then to mitigate losses in a turbulent market and even make some attractive returns.

Just like in theology, "soul" is hard to define, but I think I know it when I see it. Just recently I was reading a submission that was describing how their firm picked operating partners to invest with. They said they sought out firms "with an identifiable pattern of responsible decision making". I would edit that slightly to say "firms with identifiable and **verifiable patterns** of responsible decision making".

That may on first blush sound like a lot of firms, but that hasn't been my experience. But it's not an impossible task to test firms to see whether they had that "soul".

First look at a manager's track record in "hot" markets. Did they keep pumping money out when just about everybody knew the markets were way overheated? For me the concept of "due diligence is for sissies" and 14 day start-to-finish $100 million deals were clear signs from on-high that a crash was coming.

Ask to read their internal investment recommendations from those years to see if they were even thinking about the risks in an overheated market. Did they recognize it and try to mitigate such risks? Everybody makes investment mistakes, but people/firms that don't even consider or recognize or try to mitigate risks are bound to make more and bigger mistakes. Look at their "Hold-Sell" analyses in 07-08. Did they have any sense danger was lurking?

Talk to their younger staff - not just the Big Cheese Bosses - in a one-on-one, casual setting. You will be surprised how much you can learn about a firm's values, culture and processes, by having lunch or coffee with mid-management staff - without a "boss" lurking around. Its the old "out of the mouths of babies" theory of research. My pet question is asking them about how does their firm's "risk management" process work and see if they steer you to their insurance person.

One of my concerns recently is the increased restrictions on investor staff's ability to interact with managers. If all investors can do is sit across a table from teams of bright, articulate presenters in nice suits, they are never going to get to the soul of an organization. There is a reason for social interaction with other business people - whether it be at conferences, dinners and, god forbid!, the golf course. In these social settings you may get to see a side of a person or firm that you will never see in a highly choreographed 1 hour presentation. People just naturally let their guard down in social settings and you will possibly see the side of a person or firm you would like to use in your decision making. While there is no doubt some of the "socializing" in the past has probably been overused and even abused, I would hate to see investor staffs "sent to the convent". That will not lead to optimal decision making.

The so-called "Gate Keeper" consultants are supposed to help with this vetting, but they are also time and cost constrained. And do they have the staff to do the "soul" check? Good question! (I might also add, if you did a "Word Cloud" of consultant RFPs, would you find a similar clustering of words and phrases?)
So back to my pile of submissions. I wish I could give clearer advice to all the people who sent them to me. You can't just state: "we have a fiduciary soul." That won't resonate! In my opinion, if you want to differentiate your firm, you must somehow prove that over the past cycle you were cognizant of the issues and risks involved, that you tried to mitigate those risks without totally throwing in the towel, and that you tried your level best to make investment decisions that were verifiably in the best interests of your investors.

Not every one will be able to do that.

As for institutional investors, my advice is to just follow the old Ronald Reagan Rule: "Trust, but Verify".

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