

# Mark Gabbay's great realignment



## Cover story

*LaSalle's new global CEO wants his employees to think like investors. Kyle Campbell hears why*

PHOTOGRAPHY: JULIAN WINSLOW

For Mark Gabbay, the covid-19 pandemic is more than a trend accelerator. It has brought about a paradigm shift for private real estate.

Sitting in his Santa Barbara home with his sleeves rolled up, the newly-installed global chief executive of Chicago-headquartered LaSalle Investment Management explains how the crisis has fundamentally changed the relationship between asset valuation and market uncertainty.

"The pricing of volatility is getting repriced in a way that I'm not sure is reflective of fair value," he says. "People are accepting more volatility in the cashflow for a higher asset price, and not necessarily demanding a premium for volatility. By doing this, they're effectively saying, 'This is going to work

out, I will hold the asset for the long term and accept the longer hold periods.' With tenant improvements, paying leasing commissions, enhancing your on-site amenities to be competitive, the reality is the property cashflow can be volatile."

How individual managers assess volatility, value assets and ultimately invest through this period will determine their performance through the cycle ahead, Gabbay says. He adds that this pressure is compounded by a marketplace where increasing numbers of investors want to limit the number of managers they work with to be more efficient.

"All managers have to find a way to continue to be highly relevant because of the consolidation trends that are happening and because the real estate cycle coming out of the pandemic is likely to redefine the entire business,"

*“If you look at what our investors are trying to do, I’m trying to mimic that with our employees and get them thinking about the world and real estate investing in a similar way”*

**MARK GABBAY**  
LaSalle Investment Management

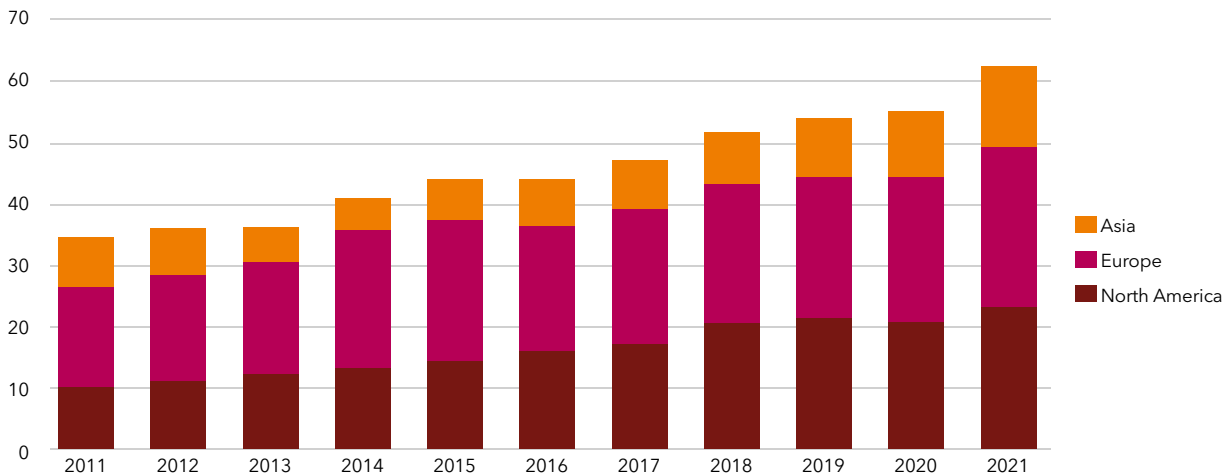
he says. “If you can drive investment performance, you will maintain relevancy.”

It is of little surprise that Gabbay sees the current crisis through the lens of asset selection and valuation. He is a consummate real estate investor, after all, a so-called ‘deal guy.’ Personable but not convivial, he is direct and inclined to probe for details. He knows markets up and down the risk spectrum and across the expanding universe of institutional property types. “Relative value” was a common refrain during this interview with *PERE*.

To meet the challenges of the present moment, Gabbay wants the entire company of nearly 900 employees thinking like investors as well.

Since taking the reins as global CEO at the start of the year, Gabbay has done that in small ways, like the series of two-minute videos he initiated to educate staffers about the intricacies of finance and deal structure. He has bigger changes in mind, too, like making the firm’s three regional businesses more alike by beefing up the higher-return offerings in Europe and the US. The goal, he says, is to get the disparate parts of the global business aligned and moving with a shared purpose.

LaSalle has roughly doubled its AUM during the past decade, with commensurate growth in each region (AUM by region, \$bn)



Source: LaSalle

But the boldest measure Gabbay has taken to get employees thinking like investors is allowing them to actually invest. For the first time, employees across the company are now allowed to participate in LaSalle's general partner contributions to its commingled funds.

The expanded offering is going through its first iteration now with the LaSalle Asia Opportunity Fund VI. For hundreds of LaSalle employees, Gabbay says, this will be the first time they are incentivized to look beyond their individual duties and consider the workings of the firm as a whole.

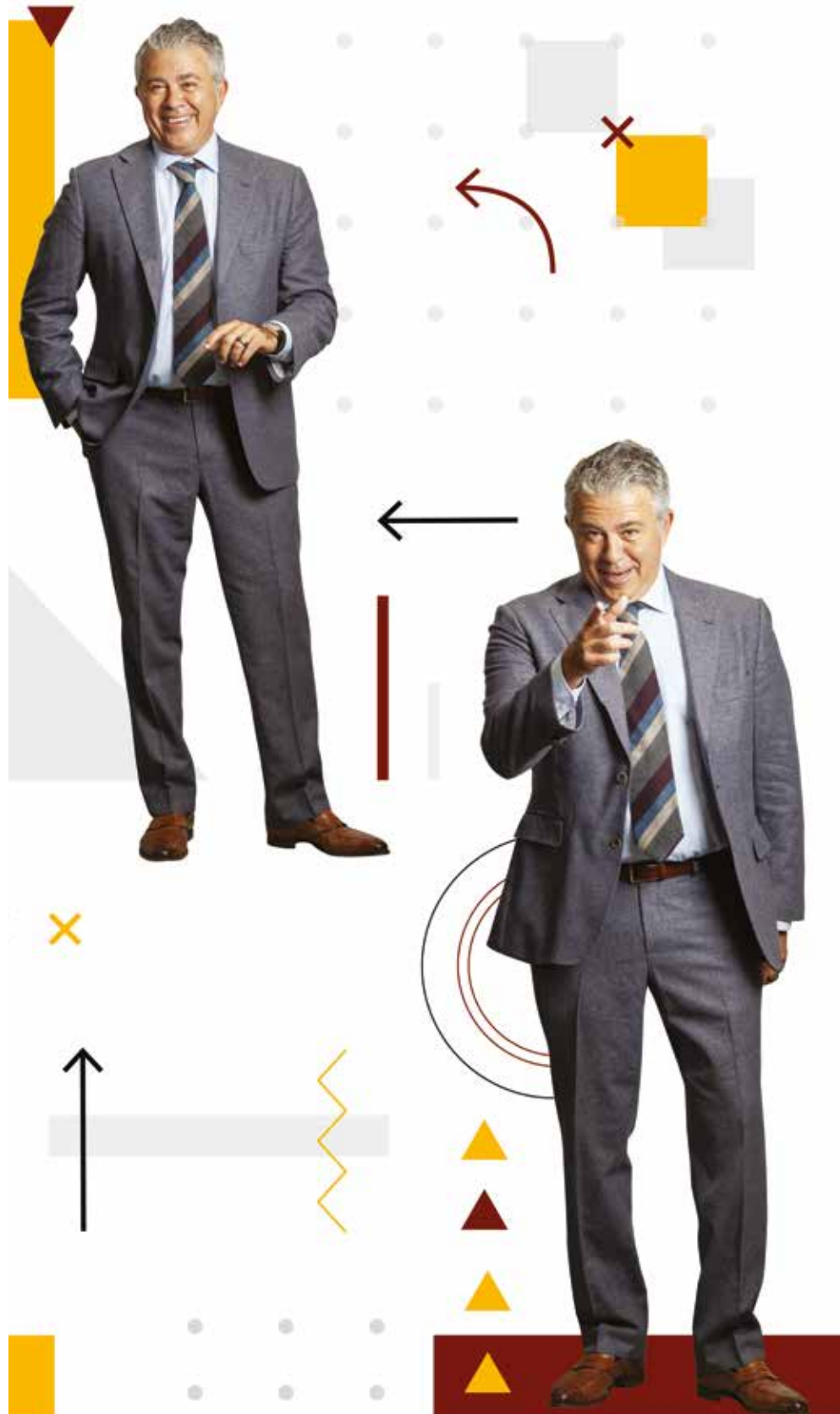
"It's a little bit of a culture shift, a little bit of a mindset shift and it's an alignment shift," Gabbay says. "It's the ability to act more like investors."

### From CIO to CEO

For outsiders and those not privy to succession planning, Gabbay might not have been the obvious choice for the top post at LaSalle.

After all, the \$75 billion firm is run largely from Chicago, where it is headquartered, and London, its largest office by headcount and regional assets managed. Previous global CEOs cut their teeth in one or both markets. Gabbay, on the other hand, has spent his entire tenure in Asia: five years as CIO for the region then five more as combined CIO and CEO. His position also put him in charge of the only opportunistic platforms in a firm known for core management.

Furthermore, before stepping into his current role, Gabbay was renowned for his deal making more than his personnel management. Hired to revamp LaSalle's Asia-Pacific business in 2010 following the global financial crisis, he oversaw \$40 billion of transactions and resuscitated the floundering Asia Opportunity series. He inherited LaSalle Asia Opportunity Funds II and III, which went on to deliver net internal rates of return of 1.6 and 0.3 percent, respectively, according to a September



meeting document from the Arkansas Teachers' Retirement System.

Starting with LAOF IV – barely a quarter the size of its predecessor at \$485 million – Gabbay was able to turn the series into a regional powerhouse. That fund has achieved a 28 percent net IRR and an equity multiple of 1.5x, according to the ARTRS document. LAOF V, which closed on nearly \$1 billion of equity in 2018, is projected to deliver a net IRR of 16.7 percent and a multiple of 1.4x. LaSalle has already secured more than \$1 billion of commitments for LAOF VI, which is targeting an 18 percent IRR, as per the pension document.

Gabbay also launched a Chinese logistics platform and added two core products: LaSalle Japan Property Fund, which launched in 2019, and LaSalle Logiport REIT, which listed on the Tokyo Stock Exchange in 2016.

Former LaSalle global CEO Jeff Jacobson – his predecessor – says Gabbay's accomplishments are not solely the result of his investing acumen, but also his managerial skills. "What he's done in Asia has been a huge, huge success and part of that is bringing in a team and motivating that team to operate at a high level."

Jacobson adds that, despite his focused boardroom demeanor, Gabbay consistently earned high marks on annual reviews from those who worked under him. "Mark was rated by his people as the top manager across all our managers, including for some of the soft skills," he tells *PERE*. "Outside of that [focused] veneer – and he definitely is a great investor – he thinks about his people and his organization and inspires incredible loyalty from them."

Indeed, that dual track record of managing both people and investments is what secured Gabbay the top job at LaSalle, Jacobson says. Likewise, Gabbay says his team's successes in Asia coming out of the financial crisis have laid the groundwork for his global

strategy at this pivotal moment. "When you combine a highly competitive industry, consolidation, performance and a post-pandemic cycle where nobody really knows what's going to happen, you can see how there was a game plan for what we were able to do in Asia that might be able to overlay in the other regions and products," he says.

**All for one, co-invest for all**

Historically, access to the general partner shares of LaSalle's funds has been limited to the firm's senior executives and individuals directly involved with the management of each specific vehicle. Moving forward, the option will be available to all employees who qualify under their home country's eligibility criteria. In the US, for example, an individual must have earned \$200,000 annually for the previous three years, be a licensed securities representative or investment adviser, or be deemed a "knowledgeable employee," as per the Securities and Exchange Commission's guidelines.

Gabbay says co-investment was part of the culture within the APAC business. The direct management team bought into GP commitments and upped their investments in later funds. He believes that had a direct correlation with the strong performance in that region. One of LaSalle's biggest investors, the California State Teachers' Retirement System, thinks so too.

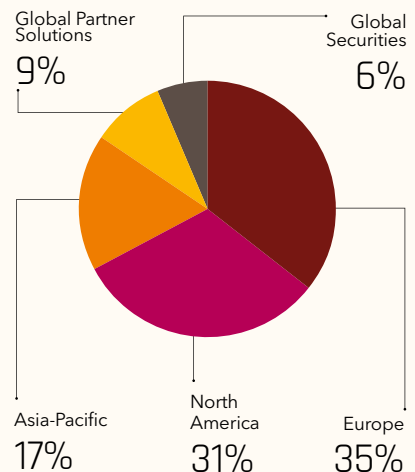
In 2015, CalSTRS committed \$300 million to a programmatic joint venture with LaSalle targeting the Asia-Pacific region. Daniel Clark, a real estate portfolio manager for the \$318 billion pension, says the JV has benefitted from greater staff participation.

"In this vehicle, we have noticed much better alignment with LaSalle Asia and a much closer connection with all of its employees," Clark tells *PERE*. "Since all employees, not just the high-level professionals, have the

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**JEFF JACOBSON**  
LaSalle Investment Management

European real estate makes up the largest share of LaSalle's AUM

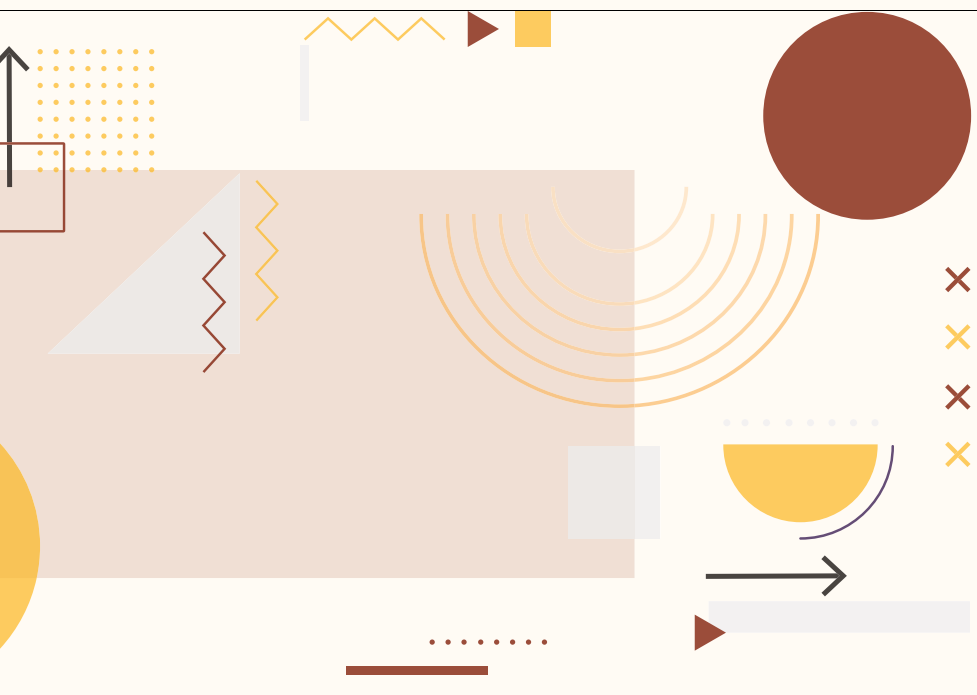


\*Figures have been rounded  
Source: LaSalle Investment Management

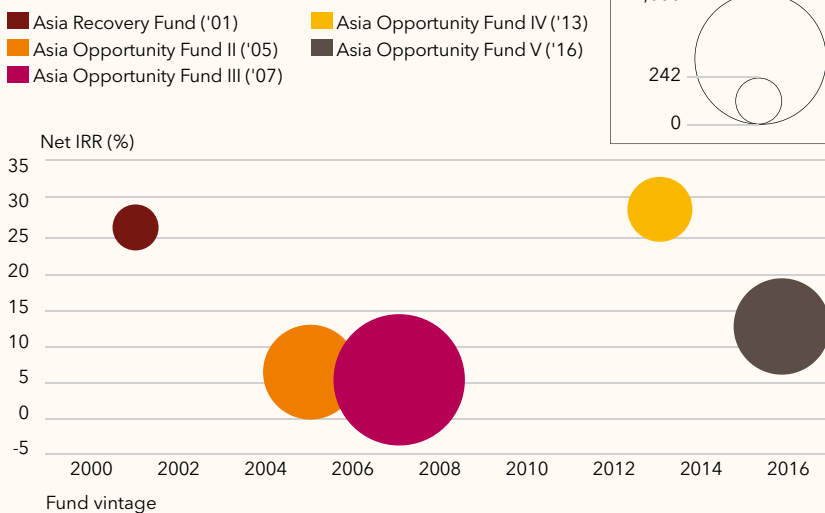
ability to invest in the JV, the entire Asia platform has a genuine motivation to make the venture successful."

By "democratizing" this type of offering throughout the firm, Gabbay expects similar results for the global business.

"We think it's a way to improve performance alignment. We've seen that," he says. "It's a win-win for all counterparties. It's a positive for the employees,



LaSalle's Asia Opportunity series has seen its fortunes reverse since Gabbay took the helm in 2010



Source: Arkansas Teachers' Retirement System

it alleviates [LaSalle parent company] JLL from putting equity into the offering and our limited partners absolutely see it as a meaningful vote of confidence for the strategy.”

For closed-end vehicles, LaSalle will aim to lock in employee co-investments in conjunction with the first close of each fund. Employees will be able to invest in open-end funds, meanwhile, during two windows annually

starting next year. LaSalle will also offer financing to all eligible employees, essentially enabling them to leverage their equity checks and repay the debt through the fund's returns. LaSalle declined to share the specific terms and conditions of the financing program, but a spokesman notes it is in line with common industry standards. *PERE* understands that to be a loan-to-value rate of between 50-75 percent. JLL will

make up the difference if the employee co-investment pool falls short of the fund's GP co-invest target.

LaSalle began accepting applications for co-investment in LAOF VI this past summer. The total number of employees seeking to invest in the GP represented a 10x increase from LAOF V, when only affiliated personnel could participate. Subsequently, the share of GP capital provided by employees went from one-third for LAOF V to 100 percent for LAOF VI. That outpouring of support “validates our global approach to making the offering,” Gabbay says.

Given the myriad of regulations around private fund participation and foreign investment around the world, opening its vehicles to all employees is no small feat for a firm with offices in 14 countries. Matthew Posthuma, a partner in the asset management practice of the law firm Ropes & Gray, tells *PERE* that figuring out eligibility requirements for GP participation across borders can be “a lot of legwork,” especially for a relatively small sum of capital from just a few investors.

“From a legal and tax perspective, there's a question as to whether the benefits of that alignment are worth the costs of getting people from other countries involved,” Posthuma says.

But for Gabbay, the ability to invest in all of LaSalle's vehicles, regardless of geography, is an essential part of the expanded co-investment initiative. Along with incentivizing employees to be plugged into the workings of other business lines and regions, the structure also allows them to interact with the firm in the same way its investors do, he explains.

“We don't have a global product; we have 10 or 12 different funds globally across the risk spectrum, so our employees can now make portfolio allocations based on their own investment preferences and risk tolerance,” he says. “If you look at what our investors

are trying to do, I'm trying to mimic that with our employees and get them thinking about the world and real estate investing in a similar way."

### Competing for talent

The motivations behind LaSalle's co-investment initiative may be distinct, but its structure is not unique. Many firms offer participation in their vehicles beyond senior management and directly involved managers. Tim Shine, principal at the Boston-based recruitment firm Shine Associates, says executives at the vice-president level or higher expect to participate in the economics of the firms they join, with co-investment being a common mechanism.

"At certain levels, employees are looking for more than a salary and a bonus," Shine says. "They want to participate in success through incentives as a way to build their net worth. They see how much money can be made from these funds so they're looking for companies who share in the upside."

Still, Gabbay says LaSalle's co-investment scheme can be a difference maker when it comes to attracting and retaining talent because it features more prominently in the firm's culture and collective identity.

"In other firms, I don't think it's as front and center. It's part of their incentive program, where people can put in their amount and let it sit over time," he says. "We're talking about it differently. We're talking about it impacting day-to-day activities, getting employees thinking about what they can do to help performance since they have their own money in it."

Like carried interest, co-investments provisions have often factored more meaningfully into compensation packages for higher-return platforms than core ones. But that is changing, Serene Hamzawi, managing partner at the London-based recruitment and advisory firm Sousou Partners, tells



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SERENE HAMZAWI  
SouSou Partners

*PERE*. As more opportunistic firms move into the core and core-plus spaces and hire managers to run those strategies, they are offering them the same incentives as their higher-return counterparts, thus shifting the expectations of the labor market.

A similar trend is playing out in the reverse at core firms, Hamzawi says. As they add higher-return products and look to hire professionals from the private equity world – individuals accustomed to having a stake in their funds – firms are forced to change how they compensate their lower-return managers, too. “It’s starting to equalize across the industry,” she says.

Driving this shift is the desire by managers to stay ahead of investor consolidation by offering a greater selection

of investment products, Hamzawi says. LaSalle’s expansion of co-investment rights can be seen as a tool for attracting talent accustomed to being compensated that way, she says, adding it is a logical outgrowth from Gabbay’s background in higher-return investing.

“It sounds like Mark is bringing that opportunistic, more aggressive, higher risk-return DNA [from LaSalle’s Asia platform] into the broader business,” she says.

### Skin in the game

Institutions typically view GP co-investment as a prerequisite for participating in a fund. Investors are comforted to know their managers are putting their own capital at risk. But opinions vary as to where that capital should come from.

“One thing we try to encourage is to distribute the economics as widely as possible,” says one LaSalle investor who requested anonymity to discuss manager practices.

“In fact, one thing you want to do is make sure the employees of a firm are making enough money because not only does it end up aligning the interest of the firm with that of the investors, everyone is pulling in the same direction. It also it gives the insiders incentive to stay.”

Clark at CalSTRS tells *PERE* he would like to see more managers bring a wider pool of employees into their co-investments. But he recognizes that doing so is no simple affair. “The GP must have a proper internal process and structure that can manage personal credit risk, tax issues, etc for its employees,” he says. “Additionally, LPs should ensure that any potential liabilities are blocked from the fund and proper guarantees from the parent entity are in place.”

Bernie McNamara, head of investor solutions at LaSalle’s rival CBRE Investment Management, says that in his experience, investors are most

interested in seeing co-investments from portfolio managers and senior members of investment teams, “those with a lot of influence of direction and execution of a fund’s strategy.”

McNamara declines to share CBRE’s approach to co-investment. But, he says, demonstrating a strong alignment of interests is even more important during times of uncertainty, particularly for funds seeking higher returns.

“The more meaningful the demonstration of commitment and alignment, the better,” he says. “That topic comes into sharper focus after periods of dislocation, whether it be post-GFC or during covid, where investors want the assurance that a GP is as aligned during the difficult times as they are in the up markets.”

There is no empirical evidence that a manager’s level of participation in a fund leads to better returns. But Gabbay is of the mindset that broader participation only leads to positive outcomes. “We’ve seen it make a difference in Asia. I believe it will make a big difference in the US and Europe as well,” he says. “It changes the culture and it ties everyone together in different degrees.”

With so many employees coming into fund investing for the first time all at once, the tenor and the longevity of this cultural shift at LaSalle will likely be determined by the success of the fund at hand, Asia Opportunities VI.

That is a lot of pressure for a series that just lost its key man. According to Arkansas’s meeting document, Gabbay will no longer be directly on the hook for the performance of the very fund series which contributed heavily to him landing the top job at the firm. Not that he is going far. As global CEO he is keen to use the fund as a litmus test to roll out his “democratizing” policy across the business. Accordingly, he will remain as keen as ever to see it succeed. ■