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Terry's angels

Over the past two decades, The Townsend Group, led by co-founder Terry Ahern, has become one of the largest institutional real estate consultants in the world. Here he talks with PERE about the need for top-down investment strategies, his previous life as a lawyer and how the TV show *Charlie's Angels* influenced his career in real estate. **By Paul Fruchbom** **Photos by Phyllis Christopher**

If there is one thing you should know about Terry Ahern, it is this: he is a really nice guy.

That's not a backhanded compliment, the kind you might use to describe a homely person with a "great personality." It's a straightforward, honest to goodness piece of praise—and one not easily meted out to members of the real estate community.

In an industry filled with larger-than-life personalities among GPs, LPs and pension fund consultants alike, Ahern's low-key, laid back demeanor stands out. A lifelong native of Cleveland—"People are generally decent and straightforward there," he says—Ahern exudes the wholesomeness of the Midwest. He speaks softly in measured, thoughtful sentences. He often stresses the importance of integrity and ethics, the need to "do the right thing." As he himself puts it, "I think much of life is just developing goodwill with your clients by earning their trust over a period of time." Even a photographer for this magazine noted that "Terry was great to work with."

As chief executive officer and co-founder of The Townsend Group, one of the largest real estate consultants to the institutional investor community, Ahern does not get paid for being nice. He gets paid for providing frank, comprehensive and unbiased advice to some of the largest limited partners in the world. It's something he has been doing for two decades. Nice just comes naturally.

Of course, not everyone has such a high opinion of Ahern. But some of those Ahern-haters have spent time behind bars, courtesy of Ahern himself. Prior to his current career as an institutional real estate consultant, Ahern spent four years as a lawyer—and for eighteen months, he served as a criminal prosecutor in Cuyahoga County, trying cases involving rape, robbery and other felonies.

"That was my opportunity to do public service," he says. "And it wasn't too stressful—you always felt you were doing the right thing and negotiating was much easier. You could sit down and tell the [defendant], 'Here's the way this is going to work out. Regardless of what happens here today I'm going home to have dinner with my family. The question [for you] is whether you're going home in five years or 12 years. What do you want it to be?'"

Okay, so maybe not so nice—but certainly well-trained for negotiating with private equity real estate firms.

BEYOND THE LAW

Despite the occasional virtues of being a lawyer, Ahern left the field in the early 1980s due to its limitations on originality and teamwork. And what he found lacking in the practice of law, he would later create for himself in his new career as an institutional real estate consultant.

"In law, you need to rely on precedent in order to justify your recommendations and I think that inherently limits creativity," he says. "The other characteristic of the law that I found unattractive was the adversarial process. It's a zero-sum game: You must lose for me to win. And it was also a very inefficient process. So I wanted to be in a healthier environment that fostered creativity and was

productive."

In 1983, Ahern and Kevin Lynch, a friend through mutual acquaintances, founded The Townsend Group, which was initially established to provide real estate investment advice to brokerage firms. Though both principals had previous real estate experience—Lynch in investment banking, Ahern through his law practice—consulting was nonetheless a relatively new field for both of them. Yet perhaps even more interesting than the creation of the firm itself was the genesis of the firm's name.

"Kevin and I were sitting there one day thinking about these names that would be attractive," says Ahern, laughing. "And to the best of my recollection, I brought up Townsend because—well, you remember *Charlie's Angels* [the 1970s TV show about three female crime-fighters]? It was Townsend Detective Agency. Now Kevin will debate that and say it never occurred, but that's my recollection."

Given the changes in US tax legislation that

"In today's marketplace more than ever, the requirement to be a disciplined underwriter is paramount."



Ahern: Cleveland native, global perspective

occurred in the mid-1980s, Townsend shifted its target client from brokerage firms and their high net worth clients to another group of investors with a significant amount of capital. According to Ahern, he and Lynch looked at the market to determine, first, where there would be large capital flows into real estate and, second, where those capital flows would need investment advice. All the dots pointed to tax-exempt pension funds.

“Real estate was a relatively new asset class for institutional investors,” Ahern says. “And relative to other asset classes, it was inefficient. We thought there was a role where we could apply our knowledge and add value.”

The firm’s first client was the Ohio Police & Fire pension fund. It’s an account they still serve today—along with many others. Townsend now has more than 70 clients throughout the US, Europe, Asia and the Middle East with real estate allocations that currently exceed more than \$70 billion. According to the firm’s website, Townsend advises 19 of the largest 36 US public pension plans utilizing a real estate consultant, more than its next four largest competitors combined. Size, in fact, is a business philosophy that the firm has followed since the beginning. Ahern points out that it not only provides benefits to his firm, in terms of building up resources and attracting intellectual capital, but also to his clients, who have better access to deal flow and proprietary products, as well as the ability to negotiate more preferable terms.

“When we began, [some of our competitors] said, ‘Look, I’m only going to take on five clients,’” Ahern says. “And I looked at that as a weakness, not a strength. There are tremendous advantages to having a broad, diverse client base. The mistake was that [size] connoted we can’t provide you good client service unless only I talk to you. That’s very egocentric and short-sighted.”

As Townsend has grown over the years, so too has the underlying real estate market and the investment options available to Ahern’s clients. In the 1980s, when almost all investment strategies were focused on core investments, Ahern points out that the differentiating factors among institutions were the specific properties acquired by the fund managers. “It was very much a

bottom-up driven industry,” he says.

The severe correction of the late 1980s, however, completely reshaped the asset class. According to Ahern, it not only caused people to reassess the role of real estate and its relative risks and returns, it also led to the creation of a number of new products, both in the public markets in the form of CMBS and REITs and the private markets in the form of the opportunity funds. Today, those products have also gone global.

“When you look at real estate, you can invest in the US and you can invest offshore,” Ahern says. “You can invest in the private markets and you can invest in the public markets; you can invest in equity and you can invest in debt; and you can invest in core strategies or you can invest in a continuum of strategies that reach all the way to private equity and real estate.”

In such an environment, Ahern argues, institutional investors can add significant value not by picking and choosing individual managers, but rather by focusing on a top-down investment strategy that incorporates a well-diversified mix of assets and geographies. It is a point he stresses often.

“As we have this global investment marketplace, it means that investors can create tremendous value from the top-down,” Ahern says. “The decisions that you make as you construct your strategy—making those choices about public or private equity, domestic versus offshore, from core to private equity—are going to be much more critical and important than the specific investment that a manager makes within a pooled fund or a separate account. I anticipate that investors will be adjusting where they spend their time in order to create the greatest value for their programs.”

“Going forward the challenge is: As the returns decline can we rationalize paying the level of fees that we currently pay?”

UNDERWRITING RISK

If today’s environment provides a great deal of opportunity for investors to generate returns, it also carries with it significant risks, particularly given the amount of capital that is entering the sector. And in Ahern’s view, the primary risk—for LPs, GPs and debt providers alike—is a lack of thorough and diligent analysis.

“What the entire industry may have at risk in this environment is a disciplined underwriting process,” he says. “Whether it’s an institutional investor getting into the fund, the investment manager acquiring the property or the lender making a loan—in today’s marketplace more than ever, the requirement to be a disciplined underwriter is paramount.”

Underwriting discipline is a common theme in Ahern’s world. Throughout our conversation, he references the concept repeatedly. And the sentiment is understandable—it forms the basis of his job. One also gets the sense that Ahern has seen more than his fair share of undisciplined behavior in recent years, a point that becomes more apparent when the discussion moves towards opportunities in the Asian real estate markets.

“What are we seeing today in terms of China or India?” he asks rhetorically. “We’ve seen funds oversubscribed regularly,

open for very brief periods of time.”

Ahern adds that investors, particularly US tax-exempt institutions, need to understand not only the fundamentals of an overseas investment, but also the legal structures and tax implications of the country in which they are investing so that they can accurately compare returns with those in more transparent markets.

“When you talk about India and China,” he says, “you want to ensure that you’re not just caught up in the India or China story. These are very complex funds with issues that range from property-level issues such as return on cost for development to legal issues such as ownership and tenant rights to structural issues such as taxes.”

Of course, the movement of fund managers and institutions overseas has been driven by the relatively lower risk-adjusted returns available in more mature markets such as the US and Europe.

And as Ahern himself admits, these new foreign markets provide significant opportunities to generate returns. “What’s exciting about real estate,” he says, “is it’s still a relatively inefficient asset class, particularly as you go offshore.”

Yet his aforementioned skepticism reflects a natural caution—call it the consultant’s curse—towards those who jump on the latest investment idea without a thoughtful and prudent strategy. Across the board, the real estate industry has generated strong returns in recent years, which has led to riskier strategies being implemented in riskier geographies, some would argue without a lack of foresight. Ahern is not the only industry veteran that is stressing the need for caution, nor the only one who sees a potential shake-out among private equity real estate funds in the near future.

“Going forward the challenge is: As the returns decline can we rationalize paying the level of fees that we currently pay?” Ahern asks. “We have had a favorable investment environment and far less volatility in the sector than one would expect. On a go-forward basis, we may see more volatility in the sector and some fallout in the managers.”

Yet if Ahern had to provide one piece of advice to opportunity fund managers, it would not be to look over their shoulders for an LP hatchet man. Nor would it involve a lecture on alignment of interests or the need to rein in management fees. Rather, he would stress the importance of relationships, integrity and ethical behavior. Institutional investors—not to mention their real estate consultants—have long, and sometimes painful, memories.

“After two decades in the industry I’ve learned that statements like ‘It’s a nine-inning ball game’ and ‘It’s a small world’ are absolutely true,” Ahern says. “So if I were to give any advice to people entering the industry, I would tell them: ‘Do the right thing and, assuming you’re skilled at your craft, it will ultimately lead to success.’”

THE TEAM IN TOWNSEND

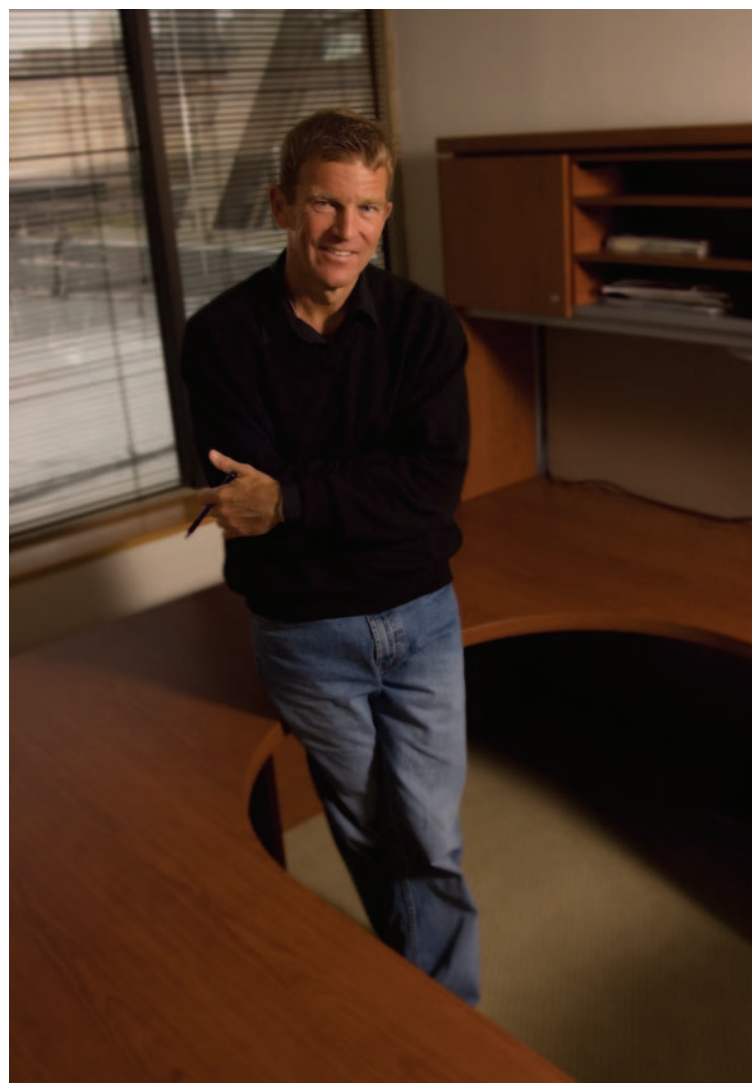
What has led to success at Townsend is perhaps more difficult to quantify. Though Ahern’s philosophy of doing the right thing is ingrained in Townsend’s culture, Ahern himself is hesitant to use

the “s” word in describing his own company.

“I don’t know if we are successful,” he says. “And the day that we think we’re successful, we may become complacent. Perhaps it’s that fear of complacency that stops us from believing we’re successful. And that’s a healthy discipline.”

Discipline and foresight have helped shape Townsend’s growth

“If I were to give any advice to people entering the industry, I would tell them: ‘Do the right thing and it will ultimately lead to success.’”



Ahern: nice guys finish first

from the beginning of its existence. Though Ahern and Lynch could not have predicted the changes that have shaped the industry over the past two decades, the two realized early on that the real estate industry would not remain static—and any consultant who did so would not be around for very long. Townsend therefore began building several different platforms to meet the demands of a maturing property market, focusing on areas that Ahern and Lynch felt would be critical in the years ahead.

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Kevin Lynch	Co-founder, principal
Frank Blaschka	Principal
Micolyn Yalonis	Principal
Jeannine Balsamo	Principal
Stephen Burns	Principal
Linda Assante	Principal
Rob Kochis	Principal
Richard Brown	Principal
Martin Rosenberg	COO/General counsel
Jay Long	Principal
Neil Myer	Director of research

Real estate assets of existing clients \$70 billion

“As a result, you see a commitment to research—we’ve had a research director since 1989,” Ahern says. “We’ve seen a commitment to technology, to proprietary databases, a commitment to analytical teams and also a commitment to develop a wide and deep consulting team.”

“What I’ve always told the firm is the greatest risk to institutional real estate consulting is that we become a jack of all trades and a master of nothing,” he adds. “And I think the greatest risk to the institutional investors is that they wouldn’t know the difference.”

In order to develop and maintain that expertise, Townsend has created specialized teams that focus on specific disciplines, products or geographies—in this respect, as well as several others, Townsend, despite being a consulting firm, has come to resemble a fund manager. According to Ahern, the firm has a team dedicated to Asia, Europe, the non-US Americas, high return strategies in the US, the various property types, the public markets and the debt markets.

That diversity of expertise is partially reflected in the makeup of Townsend’s approximately 40 employees. The firm’s consultants and principals come from backgrounds in investment banking, small cap investment management, foreign exchange and debt trading desks, research, accounting and even Ahern’s former profession, the law.

“You don’t want to be myopic,” Ahern says. “What we’ve really tried to do is aggregate a team that we believe brings together a variety of disciplines.”

Ahern and Lynch have also tried to build a culture, one that seems to reflect not only the personalities of its principals, but also the firm’s roots in Cleveland, where Townsend maintains its headquarters. Ahern notes that Townsend looks for team players, for integrity, for intellectually curious, creative thinkers. Perhaps the one time Ahern will permit himself to use the word “success” is when he describes the people he works with.

“I love the people in our firm,” he says. “They’re responsible, they do the right thing. If you’re to say what’s our biggest success, it’s not an investment, it’s not landing an account, it’s really the people we’ve been able to attract.”

And those people seem to work as hard as Ahern does, perhaps befitting the prototypical Midwestern work ethic. Our conversation took place while Ahern was in San Francisco, after which he was headed to Los Angeles, San Diego, New York, the Middle East and, finally, back to Cleveland. His colleagues seem to earn as many frequent flyer miles as he does.

“In the first quarter alone, we had teams to Asia twice, teams to Europe twice, teams to Latin America once and we’ve already got five trips lined up in the second quarter, all for underwriting,” Ahern says.

When Ahern really gets away from the office—and not just in a plane—he likes kayaking on the lake outside his house, as well as skiing, though not for reasons one might expect.

“I probably like skiing because I’m very bad at it,” Ahern says. “Unlike golf—which I’m also bad at—you can’t think about other things. When you’re skiing, you have to focus otherwise you might run into a tree and die.”

Staying focused, inside or outside the office, is something that Ahern seems to have little trouble accomplishing. He doesn’t have many hobbies—he even recounts the story of a friend who had all types of hobbies because he really didn’t like his job and needed those things to distract him, a problem Ahern doesn’t suffer from. And like many entrepreneurs and businessmen, even when he reads a book, he seems to look for lessons that can be applied to the business world he inhabits.

“The last book I read cover-to-cover was *1776*,” Ahern says. “And what I found fascinating was that it was a real lesson in the difference between being a manager and being a leader. It also showed the significant role that serendipity plays in the success of individuals and entities—you can’t underestimate the role of serendipity.”

That may be true, but as one of the industry’s leading institutional real estate consultants—a profession that requires focus, discipline and thoughtful preparation—Ahern is not about to leave too many things to chance. After all, that just wouldn’t be the right thing to do.

“If you look at firms that have succeeded over the long-term,” he says, “you’ll see firms that have thoughtfully prepared and executed a plan and not just raced in on the newest investment idea. That’s not to say you can’t be timely, but it needs to be done in a well-executed format.” ■