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Market Slump Puts Bigwigs in Play

The decline in property valuations and sales activity has created a rare window of opportunity for firms aiming to pick off once unmovable senior investment professionals, recruiters say.

The so-called promote — the equity share on deals offered to senior-level acquisitions, development and some asset-management staffers — typically serves as a retention tool. Pros forfeit those gains when they jump ship, and so prospective poachers often must provide some form of compensation to win over candidates. But for the most experienced investment specialists with outsize promotes, that can be prohibitively costly.

However, as property values have dropped, "a lot of those promotes have significantly decreased or vanished," said **Kent Elliott,** principal at **RETS Associates.** "Real estate staffers no longer have the golden handcuffs to keep them at their existing employer for the long term, and so it has become an opportunity for them to put their periscope up and look around in the marketplace."

That could put more high-value specialists in play than the market has seen since the global financial crisis.

"I have heard from more people in investment roles interested in moving than I have in years," said **Lisa Flicker,** a senior managing partner and head of real estate at executive-search firm **Jackson Lucas.** "People are extractable in a way they haven't been in a long time, and it gets to be more every month."

The shrinking influence of the promote, also called carried interest, "is part of a number of things causing people to listen more actively to new opportunities," said **Emily Von Kohorn,** a managing director and co-head of the global real assets practice at **Sheffield Haworth.** She noted that those willing to move are evaluating where they want to be for the next cycle, with an eye toward well-capitalized firms without legacy issues. "There's curiosity about what's out there and if there are firms that are better positioned going forward."

The slide in property valuations has been driven largely by an 18-month runup in borrowing costs, along with performance issues in some individual sectors. Overall commercial real estate valuations in May were 21% below their March 2022 peak, according to the latest Commercial Property Price Index from **Green Street,** parent of **Real Estate Alert.** The office and multifamily sectors have suffered the steepest declines, falling 37% and 26%.

That has hit acquisition specialists especially hard. Promotes can comprise a significant portion of acquisition professionals' compensation package, upward of 50% to 75% for senior-level acquisition professionals, at firms with a more opportunistic investment strategy, said **Charlie Apfelbach,** a senior director in **Ferguson Partners'** compensation consulting group.

"Acquisition professionals are paid and incented to create value, so when deals don't perform, they feel the pain," he noted.

With promote values suppressed or underwater in some cases, employees are turning their attention to cash compensation — such as salary and bonus — and/or additional incentive programs. That's causing firms to revisit their compensation strategy, Apfelbach added.

Despite the relative bargain at which firms can add experienced buy-side pros, few firms have been willing to make a move so far. Pros said that's largely because sales activity remains sluggish, and there's little clarity on when it will improve.

Across sectors, property sales of $25 million or more totaled $37.54 billion in the first three months of the year, marking the lowest quarterly volume since early in the pandemic and the weakest first quarter in about a decade.

"There is going to be a moment of musical chairs ... but right now [investment firms] are not certain enough to make that kind of a bet," Flicker, of Jackson Lucas, said.

That likely will change once the market shows signs of rebounding.

"Through the end of 2025 there could be a reshuffling," RETS Associates' Elliott said. "There will be a steady movement of staffers once markets start to recover and employers have confidence, raise funds and have optimism for the future. None of this will be fixed overnight, it is going to take time." ❖