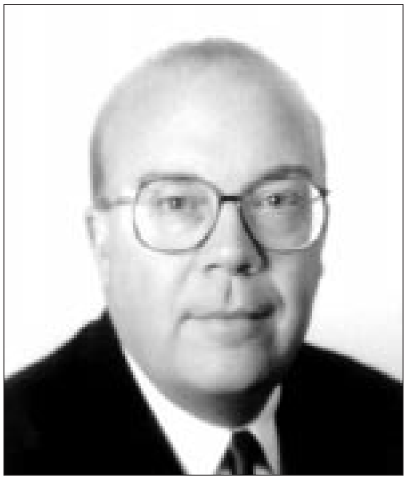
THE INSTITUTIONAL REAL ESTATE LETTER

Sponsor Interview

SSR Realty Advisors, Inc.



Tom Lydon

Jill Hatton

Throughout 2001, qualified staff, trustees and investment board members of selected employee benefits, foundation and endowment funds may be eligible to receive The Institutional Real Estate Letter *each month FREE of charge. This program is made possible by grants from independent investment advisory firms.*

In recognition of the service these firms are providing, and to help our readers learn more about them, we present this interview as one in a series of special reports.

Company Overview

SSR Realty Advisors is a real estate investment firm with approximately $5 billion of assets under management on behalf of 100 institutional clients. An affiliate of State Street Research & Management Co. and a subsidiary of MetLife, the firm has extensive experience in all major property types. SSR Realty offers a broad array of strategies and investment management services through commingled funds and individually managed separate accounts. The firm's primary business units are: Tower Fund (a diversified open-end commingled fund), Core Separate Accounts (individually managed separate accounts diversified by property type) and Multi-Housing (separate accounts and closed-end commingled funds). SSR Development Partners LLC and Metric Property Management, Inc. are subsidiaries of SSR Realty.

Interviewees

Thomas Lydon Jr. is president and CEO of SSR Realty Advisors. Lydon has 30 years of experience in the real estate industry, including the development, acquisition and disposition of commercial and residential real estate, agricultural investments and public real estate companies. He also has significant experience with equity and mortgage portfolio management. Prior to joining the firm in 1995, Lydon served as executive vice president of Mutual Benefit Life Insurance Co. Previously, he held executive positions at Manhattan Capital Realty Corp., Unicorp American Corp. and Chase Manhattan Bank, N.A.

Lydon received a B.B.A. in Real Estate from Syracuse University and is currently chairman of the National Association of Real Estate Investment Managers.

Jill Hatton, CRE, is a managing director responsible for the SSR Realty core separate accounts business unit. Previously, Hatton held the position of president and CEO of GE Capital Investment Advisors (GECIA).

Hatton, who has 19 years of real estate experience, held various senior management positions with GECIA and its predecessors between 1988 and GECIA's acquisition by SSR Realty in May 2001.

Hatton holds a B.B.A. with majors in real estate and finance, awarded with honors and distinction from the University of Wisconsin, Madison. She also earned an M.S. in business in real estate appraisal and investment analysis from the University of Wisconsin, Madison.

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In September, Geoffrey Dohrmann, publisher and editor-in-chief of The Institutional Real Estate Letter, *met with* **Tom Lydon** *and* **Jill Hatton** *of SSR Realty Advisors. The following is an excerpt of that interview.*

Dohrmann: *Tom, a few months ago SSR Realty Advisors acquired GE Capital Investment Advisors. Why?*

Lydon: About three years ago, we decided the best way to expand our core separate account business was through acquiring or merging with an established firm that was already successfully managing core accounts. I knew of GECIA and its reputation in the market, and I was talking to senior executives every six months. So when GE made the decision to sell the unit, we were ready to act very quickly with a handshake. They didn't need to go to market.

Dohrmann: *Why couldn't you just grow the core business you already had?*

Lydon: You need scale in the separate account business because of the customized client service needs and the extremely competitive fee structures. We had two core separate accounts at SSR Realty, and GECIA brought in an additional six. Since that time, we have added a ninth client. We now have approximately $2 billion in assets under management in this business line, which gives us the size to be competitive. Our goal is to be on the A list of every consultant and large plan sponsor when they are conducting core separate account searches and start to win their business during the next 12 to 24 months.

Dohrmann: *Why does SSR feel it needs to be in the core separate account business?*

Lydon: More than 50 percent of pension funds' portfolios are core portfolios. The Tower Fund and our multifamily commingled funds meet the needs of the small- and mid-sized clients. The largest plans, however, want to invest primarily through separate accounts. Despite the increase in value-added and opportunity funds as well as the run-up of the securities market in the past few years, core separate accounts are still a very large slice of the marketplace. In today's more difficult economic times, the market will start to invest even more in core. It's an investment vehicle that will remain a significant part of the marketplace.

Dohrmann: *Why was GE interested in spinning out GECIA?*

Hatton: We were addressing many of the same challenges that SSR was — we knew how to conduct the core business, but we weren't quite big enough to fit into the consultants' searches. You need scale and impact to make their lists. So we were looking for a way to strengthen the business, and identifying SSR Realty Advisors very quickly led to exploration and completion of the transaction.

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Dohrmann: *Did the acquisition bring any surprises?*

Lydon: In this case, the surprises have all been positive. Number one, the quality of the GECIA staff is much higher than the market perceived. Two, the relationships with the existing client base are very strong. We didn't have any client loss. And three, the positive, enthusiastic attitude of all the GECIA people is making this integration very easy. People's attitudes make these things happen or not happen, and I have to compliment the GECIA people. They really came over with the right attitude. We already have completed the integration on all major elements with the exception of an accounting integration to be done next year. And we've already committed and closed more than $100 million of new business with the GECIA client base.

Dohrmann: *It's always hard to integrate different cultures. How would you define the two cultures you are trying to mold into one?*

Hatton: Our cultures are very similar, which is one of the primary reasons this merger has worked extremely well. Client service is paramount for both organizations. While a lot of people say that, GECIA really provided customized, high-level service to its clients. SSR has the same philosophy. What is most important to the clients always comes first. So a very hard-working, client-focused organization from GECIA fit well into an almost identical hard-working, roll-up-your-sleeves culture at SSR.

Lydon: We don't think of client services as just an ancillary group that peruses reports. We made a major shift in this area about two years ago, with Fred Lieblich refocusing that group. We recently appointed Eileen Fitzgibbons, a director from GECIA, to head a group of more than 15 individuals dedicated to client service. We work hard at customizing the client service and products we manage, rather than assuming you can do the same thing for every client.

Dohrmann: *How is it different for each group of clients?*

Lydon: It's quite different. An open-end commingled fund with 50 clients like the Tower Fund, for example, requires a standard quarterly report sent to each of those 50 clients, plus an annual report written once a year. In the case of a large multifamily or core separate account, we typically produce very substantial, detailed, customized financial and operational reports on a monthly basis. The larger the clients, the more customization they expect. We're organized to meet the needs of the clients.

Dohrmann: *How well have your investment philosophies merged?*

Lydon: Our investment philosophies — which involve integrating research, a well-developed risk/reward discipline, and active portfolio management in a core and core-plus strategy — meshed so well that, within a week to 10 days after closing, we were reviewing and approving the first deals. The clients at both firms now benefit from deeper proprietary research and acquisitions capabilities.

Dohrmann: *You've mentioned your research group a couple of times. How would you describe SSR's research approach?*

Hatton: The research at SSR is extensive and reaches all operational areas of the firm. Unique market analytical tools, research and thinking have been developed by the firm to benefit our clients. There are extensive staff and infrastructure devoted to meeting and exceeding client expectations not only in the acquisition area, but in the ongoing management and disposition decisions. We can dig down deep into how markets might perform in the future and the potential impact to our client portfolios. Everyone in the firm has access to this research on their desktops, and it is specifically developed in a user-friendly format to ensure it is broadly used throughout the company. If you don't have research that is useable, people won't use it.

Lydon: We can go to large sophisticated clients and deliver strategies, thought processes and portfolio analytical tools that consultants may not be able to afford to give them under today's fee structures. For example, we have an analytical tool called PARS — Portfolio Analysis and Repositioning System — that our larger clients can use to strategically analyze their portfolios. Through PARS, sponsors can judge the effects of various tactical and strategic moves on their portfolios. We call it research, but it's really client service. It's understanding the level of interaction in a much more macro and strategic way than just buying or selling a property.

Dohrmann: *How would you describe SSR's primary business activities today?*

Lydon: We have three business units. We have the Tower Fund, which is an open-end commingled fund that is celebrating its 20th anniversary this year. We have a multifamily division. And we have our core separate accounts unit. We developed this structure several years ago because different investment vehicles require different approaches. The style of investing, portfolio management activity and the way you service your clients is very different when you are investing in an open-end fund with 50 clients as opposed to large separate accounts. Clients utilizing core separate accounts have their own unique investing styles. The types of people you need to manage those assets and provide client services tend to be very customized.

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Dohrmann: *What kinds of returns have you produced in each of those business lines?*

Lydon: The Tower Fund has exceeded NCREIF averages by 100 basis points on both a one- and three-year trailing basis. The composite portfolio of all our multifamily portfolios, both the separate accounts and commingled funds, has beaten the NCREIF Apartment Subindex by 130 basis points on a one-year basis, and by an average of 160 basis points on a three-year basis. And the new core separate account business was really the star. That group historically has beaten the NCREIF average by 300 basis points on a one-, three- and five-year basis. So each of our business units has exceeded its benchmarks, which is really key to keeping business, getting business, and especially getting paid for business because a lot of the fee structures are tied to beating a benchmark overall.

Dohrmann: *There always are a lot of internal issues that need to be addressed when firms merge. How do you keep your people focused on the returns to the clients during the transition period?*

Lydon: SSR Realty has a disciplined risk/reward investment process that is supported by a multi-million dollar investment in technology and people. No matter what other issues we are addressing, whether they are merger-related or something else, we keep our eye on the ball to ensure client returns and investments never suffer. As our returns since the Metric merger three years ago prove, we can continue to manage investments successfully while merging a company into our culture.

Dohrmann: *What's the focus for the balance of 2001 and moving into 2002?*

Hatton: Right now, our primary focus is on servicing our existing clients. We will always put that at the forefront of our activities. We are making sure that all the plan sponsors and their consultants are aware that we're completely focused on their portfolios and that our skill set is being fully applied to optimizing the performance in their accounts. Over the longer term, we expect to convince the large plan sponsors and the consultants that we should be on their A list in searches and to grow our business in a way that is complementary to the existing client base. We are entering a challenging market period, and this is where the skill sets of the managers will start to show. As we move into this next phase of the market cycle, I think we will be able to demonstrate to our clients that our skill sets are above those of our peers, and perhaps we can earn the right to take over additional business.

Dohrmann: *How has today's market affected your investment strategies?*

Lydon: We're in a time of limited growth, so we're much more defensive in our acquisitions. There's a substantial disconnect between the buyer's underwriting and the seller's expectations, and that is slowing investment sales. We will probably see acquisition volume drop by 50 percent this year. We funded approximately $1 billion last year, plus a couple of hundred million in forward commitments. Mid-year 2001, we readjusted our forecast down to $500 million. Even though we have the capital available, we don't think the appropriate risk/reward is out there.

Dohrmann: *What are you doing to be defensive?*

Lydon: The biggest mistake the real estate industry has made, whether it's in equities or debt, is being transaction- or fee-driven. When the economic world is shifting, you can't go out and buy properties in volumes at the same underwriting. We've changed our goals to be less production-oriented. We're more qualitative-driven and more focused on meeting the portfolio needs. We pass up a lot of opportunities because we think they're not being priced correctly in the marketplace.

Dohrmann: *Where are you buying?*

Lydon: We have taken advantage of the softness in the office sector and closed several transactions on fully leased, stabilized buildings, with what look like very nice double-digit cap rates. We continue to be very favorably disposed toward multifamily, a story we have been selling for years. We now find our competitors also interested in multifamily, which has led to a pricing issue. Because of that, we will not do the volume that we did last year, which was $600 million in multifamily acquisitions. We've been fortunate enough to continue to find selected product in the industrial sector. We closed several industrial deals, including one on the West Coast that was in excess of a $100 million. We continue to keep retail under 10 percent in all portfolios and very selectively are looking at any type of retail.

Dohrmann: *I also understand you just added a new development division. Why?*

Lydon: The large pension funds want to generate excess returns by investing a portion of their portfolio in value-added and development components. Several of our large clients were pushing us to deliver that service on a direct basis without the double promotes that some of the opportunity funds have. The pension funds wanted more control over where those investments are made on a geographic basis and wanted to avoid having to do joint ventures with local operators. So we set up a new company, SSR Development Partners LLC, to meet those needs. Jeff Allen, who previously was a partner in Paragon Partners, heads the group. We're not going to be the largest developer in the advisory community, but we're going to have the ability to take advantage of selected opportunities for our clients.

> *"The time of fast growth and quick incentive fees is over. Now the industry is going back to doing what we do best, which is create value, build trust, manage core real estate well and add value around the margins."*

Dohrmann: *Why set up a separate group? Why not just add development to your array of products?*

Lydon: We've done development during the past three or four years for a number of different accounts. If you really want to sell that capability and deliver it on a consistent basis, you need to have a segregated group of people who have the skills as well as the financial motivations to match a particular opportunity with a client. A separate group also enables us to attract an individual like Jeff Allen.

Dohrmann: *Is this the best time to be moving to the development business?*

Lydon: It may not be the best time, but it's a very good time. We're finding that there are projects where the capital has evaporated that still offer the proper risk/reward. We can offer new capital on a long-term basis, perhaps five to seven years. We're looking at selective situations where a small staff of people can deliver to a client the right type of returns for the risk taken. It's not a volume-driven situation. We're talking several projects a year at the most.

Dohrmann: *Where does this type of investment fit in a fund's portfolio?*

Lydon: There's a place — up to 25 percent — for value-added, opportunistic and development for a lot of large clients. Certainly market conditions will affect their appetite, but I don't see us going back to doing 100 percent core.

Dohrmann: *Any other new business lines that you're thinking of entering?*

Lydon: REIT securities are the only new product line I am interested in. We would have to move into this arena through the acquisition of a company where a management team is in place with a track record and at least $500 million of assets under management. That limits our options to a very select group of companies. So it's on my radar screen, but I would not expect it to be something we do soon.

Dohrmann: *You've been through two major acquisitions in the last several years and have seen your returns increase. What do you do for an encore?*

Lydon: We would like to grow our business internally with our existing client base, and we would like to be among the top 10 managers in assets under management. But our primary goal is not to be the largest manager or to buy companies every year. Our goal and our mission is to create value and build trust with our clients. Assets under management come hand-in-hand with that. We will selectively grow through acquisition of complementary real estate investment managers that immediately fit with our culture, our people and our clients. Trying to grow through disparate acquisitions or being impatient doesn't work. It took us three years to find GECIA, but it's the perfect fit. If it takes us another three years to find the next fit, that'll be fine.

Hatton: The time of fast growth and quick incentive fees is over. Now the industry is going back to doing what we do best, which is create value, build trust, manage core real estate well and add value around the margins. ❖