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Distressed funds forced to get creative to build out teams

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Debt funds are seeking fresh talent to tackle the next wave of distress

The second half of 2023 was dominated by whispers of distressed debt funds gearing up for the next wave of trouble. As the real estate world begins to accept that the era of cheap debt is well and truly over, attention has turned to building out previously neglected distressed teams.

…uitment has been taking place up and down the corporate …rchy, according to recruitment consultants. However, over a decade of cheap money and high valuations has meant that, at the junior to mid-level, there's a real lack of talent. True, more than a few senior players remember the last crisis and the workouts that ensued. However, headhunters point out that in many cases, these senior players rarely get down in the weeds. Plus, all that experience comes at a price.

Discussions are still at an early stage, though they have picked up in the last six months, according to Ulrik Rasmussen, head of Pedersen & Partners' global real estate practice. Given the speculation about rising distress, people are trying to be prepared, says Rasmussen: "2008 happened so fast, no-one was prepared for it. This time, many of the key players are well prepared for the market change."

Hollowed out

The larger real estate players are understood to be looking to make specialist hires with corporate and banking skills. Given the work out of most legacy distressed debt, many teams have been hollowed out. Some of the teams at the top distressed investors have shrunk by up to 90%. This means that some firms will be looking to rebuild these teams.

However, very few people at the junior to mid-level have had to work out soured loans, which is posing problems for debt funds trying to build out their teams. One recruiter said: "There's a real lack of experience in servicing and workouts at the moment after so many years of cheaper debt. Therefore, funds are having to get more creative about where they hire from and are more open to people coming from different backgrounds, for example the big servicers."

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ULRIK RASMUSSEN, PEDERSEN & PARTNERS

While some mid-level people did cut their teeth in the Southern European non-performing loan wave of the mid 2010s, debt funds are reportedly looking for people with German and Scandinavian language skills, rather than the Italian, Spanish and Greek of the previous wave. Given that these markets were spared the biggest bloodbaths of the past 15 years, this has made workout experts with language skills a hot commodity. The German residential construction sector, as well as offices, will be one to watch given some developers are running on squeezed margins.

However, hiring is difficult in a time of lay-offs and hiring freezes. This means that recruiters are getting increasingly creative about reallocating people within firms. In many cases, recruiters have told *React News* that a lot of firms are looking to hire people who are more versatile and can be reallocated when markets change again.

High-profile moves in 2023

React News has been keeping an eye on some of the high-profile moves to distressed debt funds. For example, Alvarez and Marsal hired Florian Nowotny and William Clark ahead of the expected uptick in distressed activity. In the US, former Blackstone grandee Chad Pike launched Mankora, a vehicle that aims to target capital dislocation through credit deals, special situations and private equity real estate outlays. Back in the UK, Homes England is advertising a role for a senior manager to handle its distressed investments.

Florian Nowotny and Will Clark have been hired by Alvarez and Marsal

The buyside isn't the only place hiring; advisory firms are also keen to bolster their teams so they can better serve their clients, say recruiters. However, the dearth of real estate restructuring on offer over the past few years, particularly outside of the Southern European and retail markets, has made it difficult to hire at the junior to mid-level.

As on the buyside, senior hires with experience working out tricky situations are hard to come by and command a premium. Over in Germany, brokerage firm NAI Apollo hired NPL veteran Klaus Schumacher as an adviser for its corporate services. He was hired to set up a "special situation platform for NPL and distressed real estate services".