On the Same Page

The multifamily office has grown and changed so much that the wealthy may be left wondering if everyone is playing together.

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By Gregory Taggart

Does the term “multifamily office” (MFO) conjure up a picture of a wise old family retainer in plush, walnut-paneled offices overlooking lower Manhattan, providing womb-to-tomb care to pampered trust fund babies? Here, no need goes unmet. Credit card bills? He pays them. Want to save the whale? He’s there with suitcases full of money. Thinking of following in Paris Hilton’s footsteps? “Not in this family,” he cautions.

Like most fantasies, this one is a bit out of touch with reality. Today, that paternalistic, full-service provider occupies one end of a broad spectrum encompassing everything from one-person shops that outsource all services to multi-professional affiliations capable of handling in-house virtually all services potential clients might want from an MFO. And the number of families they count as clients may vary from just three to 300 or more.

“The whole industry is in disarray,” explains Kathryn McCarthy, an industry consultant who has worked in her share of multifamily offices. “Today, you can skin a multifamily office in a zillion ways.”

In fact, there is some concern in the MFO industry that the definition of a multifamily office is so fluid and the space so fragmented that the term has become almost meaningless. Some MFOs concentrate on investment advice. Others specialize in the so-called soft services—offerings that vary from bookkeeping, tax preparation, and bill paying to concierge services, medical care, family governance and vacation planning (see “A Wealth of Services,” right). While some MFOs aggressively market their services—the buzzword for such firms is CFO or Commercial Family Office—other firms serve more than one family, but are largely closed to new families.

“They are essentially closed shops,” McCarthy explains. “Their business model is such that they don’t anticipate marketing aggressively. They may take on a new family occasionally, but they are not gathering assets like the commercial ones are.”

While MFOs offer a broad array of services, not every family needs every service. In any case, the effort is high-touch and customized, regardless of the service.

Moreover, virtually every MFO differs in the range of services they offer and how they charge for those services. In short, defining an MFO is no easy matter. The result is a lot of money managers-cum-multifamily-offices chasing liquid assets of multi-millionaires and billionaires, hoping they can make enough on the investment management to cover the costs of the minimal services they offer. Not exactly a winning proposition for clients, it bothers many in the business who fear such interlopers may give the industry a bad name.

“A well-organized MFO doesn’t just chase investible assets,” says Patricia Soldano, CEO of Cymric Family Office Services in Costa Mesa, Calif. “People who enter this business must not only be prepared to be investment managers, they need to be prepared to do their clients’ estate planning, to do their philanthropic giving, to have family meetings every quarter, to do their tax work and to pay their bills,” she adds.

The cost of providing all those services is not small. For example, industry estimates say it takes at least $3 million annually to cover such expenses in a single family office. That means that a family should have a net worth of at least $250 million before it considers opening its own family office. McCarthy and others argue that the number is actually closer to $500 million. That leaves a lot of families in need of family-office services they can’t afford on their own. The magic threshold appears to be around $25 million dollars. In fact, none of the firms I interviewed would accept a new client with a net worth of less than $25 million. And there are a lot of people who meet that minimum. According to John Benevides, president of Family Office Exchange, there are 32,000 households in the United States alone with a net worth in excess of $25 million. And the most recent Capgemini “World Wealth Report” claims there are 85,400 individuals world-wide with a net worth in excess of $30 million. What many of those people are looking for, Benevides says, is simplicity and structure. “They want someone to help them organize a lot of complexity, what some would call chaos,” he explains. “They are looking for a solution because the complexity requires so much of their time, and they either don’t want to do it themselves or don’t have the skills to do it.”

By delegating management of their complex affairs to a multifamily office, they hope that there will finally be talent in place to eliminate the chaos by integrating and coordinating their lives and their assets. “In other words, somebody is pulling things together, reporting, doing things that an office would do,” says Benevides. “What that means specifically depends on who you’re talking to.”

Like virtually all other financial service professionals, multifamily offices tend to be niche marketers, building their services around the needs of the type of client they hope to attract. For example, Carol Pepper of New York-based Pepper International knew going in that she wanted to work with smaller, newly wealthy families—those who recently inherited money or sold their business—whose investment outlook is socially responsible. Consequently, she built her business model to serve such clients. “I don’t work with large multigenerational families because I’m a small shop,” she explains.

She means small as in one person—herself. Pepper runs what she calls a “virtual” family office. That’s a brief way of saying that she outsources 100 percent of the services a client family may require, including money management, accounting, estate planning, bookkeeping, tax preparation and philanthropy. (see “A Selection of Venues,” above) And that, she says, benefits her clients. “I’m not strategically aligned with any vendors. I’m free to work with whomever I want, so that I can tailor or customize a solution for my families that is unique for their needs.”

Every multifamily office outsources services differently. Some outsource everything; others, very little. Few, if any, do everything in-house.

Customization is the word the MFO world uses to explain what makes their business different from basic wealth management or financial planning. The rich are different from you and me, the saying goes, and the very rich, multigenerational family is more different still. That’s the market Christopher Hohlstein works in as the director of Columbus, Ga.-based Synovus Family Office Management, a division of the regional banking and financial services company of the same name. The evolution of the MFO is a classic illustration of the original family office model: It began by serving the needs of the family that started Synovus more than 120 years ago. Over time, they took on other families who had a relationship with Synovus—either as directors, shareholders, or significant customers—with the objective of amortizing costs over more families. “Then about 10 years ago, we realized that we should create brochures and market ourselves to other Synovus customers,” Hohlstein says.

What those customers tend to have in common is their concern with preserving the family business or family wealth from generation to generation—what Synovus calls family legacy preservation (see “For the Future,” page 59). That’s not surprising given that the original family business was founded in 1885, and the family has had a significant ownership interest in the bank now going on six generations. “So it was an obvious step for us to pursue multigenerational succession planning,” Hohlstein says. “And in turn, that’s what the majority of our clients are looking for—not every one of them, but the majority. What they really like about us is that we are able to help them develop their legacy and avoid going shirt sleeves to shirt sleeves in three generations.”

According to Hohlstein, it’s not unusual for MFOs to grow out of a founder’s values, whether they’re socially responsible investing, legacy planning, investment management, accounting or some other strength or interest. And that, in turn, tends to attract clients who admire that particular core strength. Of course, they want the other pieces of the pie to be tasty as well, but it’s the core strength that distinguishes most firms and attracts their clientele in the first place. Thus, when a CPA starts an MFO, don’t be surprised if the core business is bookkeeping and tax planning. When a trust and estates attorney moves from the law firm to the family office, you can expect that his business model will be built around providing cutting-edge estate planning advice.

“At Synovus, our model means that we really get to know every single family member very well,” Hohlstein claims. “We know all the parents, we know the siblings, and we understand the [family] issues…and then try to help them figure it out.”

A 32-year-old Internet entrepreneur with a spouse and no children, who has just sold a business for $200 million, probably would not be a cultural fit at Synovus. For now, this prospective client probably is looking no farther than their retirement years, hoping to grow millions into billions along the way. Not to worry. That’s why firms such as Greycourt and Company are in business. Outsourcing all the soft services, Greycourt and like-minded firms concentrate on the investment piece, generally using an open architecture approach. Instead of selling in-house investment products, they provide a service—acting as a manager of managers and designing customized portfolios, doing the due diligence on both traditional and non-traditional managers, making sure investment plans are implemented and finally, providing the client with consolidated portfolio performance reports. According to Gregory Curtis, Greycourt’s chairman, done that way, the investment process is very complex and time consuming. “On just the investment side, where a wealthy family might have 30 managers all over the world, somebody has to consolidate those reports, provide performance reporting, and make it meaningful to the family,” he declares. “And the technology to do that is very complicated and expensive, representing a high barrier to entry to anyone thinking about moving into the MFO space.”

In fact, the cost of technology and scarcity of talent are the two biggest barriers to making any MFO business model work, especially given the industry mantra of providing “best in class” (see “Numerical Notes,” page 54). Wealthy people, they say, demand the best: The best service, the best reporting, the best money managers—in short, the best attention to their needs at the lowest cost, of course. And that puts the onus on the MFO trying to meet those needs. The scalable services—investment management to some degree—require expensive technology. The non-scalable services—tax planning, estate planning, hand holding, etc.—demand talented people. Coming up with enough compensation to entice a successful estate-planning attorney or a Big Four tax specialist out of private practice is no easy task. Consequently, according to Tom Handler, a partner in the Chicago-based law firm Handler, Thayer, and Duggan, “It would have to be a pretty large operation to be able to afford the many advisors, money managers, CIO, CFO and general counsel a full-service MFO would need. Therefore, the trend has been for both the multifamily and single family offices to go outside to private service providers because of the cost associated with gaining access to best-of-class products and services.”

Asset Management Advisors, based in Palm Beach, addresses such problems by maintaining nine three-person local family offices along the East Coast. Typically, one person is an investment specialist, another a planning and wealth

generalist, and the third acts as the administrator, overseeing all the services. As necessary, these offices work with AMA's Palm Beach resource center, staffed by the costly talent necessary to a full-service family office. The approach enables them to serve the needs of some 300 families. "What makes that possible is the combination of the very local, very high-touch family offices, with each team serving 15 to 20 families backed by the resource center," claims Michael Zeuner, chief strategy officer.

On the other hand, some offices build their practice around serving five or 10 families rather than a hundred. That's what Cymric's Soldano chose to do. She and her staff look after virtually every need of the nine families they serve. Though she eventually hopes to serve 20 families, she's taking it slow, adding only one or two families a year. Cymric does outsource some services—estate planning for example—but has people on staff to manage the process, making sure the estate plan is designed properly, the documents executed, and the plan implemented. For Soldano, the bottom line of the MFO business is that kind of personal attention. "If the day comes that I can't take a client's phone call or we're not giving that very personalized high-touch service," she says, "we will fail."

SIDEBAR

Numerical notes

Stuart Lucas, author of Wealth: Grow It, Protect It, Spend It, Then Share It, and a principal in his own family's family office, identifies the biggest challenge to starting, running and building a multifamily office: If the office is reasonably successful, he claims, the revenue in the business will grow arithmetically, while the complexity of the business will grow exponentially—largely because of the complicated lives and finances of their client families. "The multifamily offices that are able to manage that mathematical disparity will have a very clearly defined business plan from the beginning that says what services they will and will not provide," he says. —GT

SIDEBAR

For the future

The man was in his 70s. He had worked hard all his life, rising from a dirt-poor farm boy to the multi-millionaire owner of three businesses, one of which he had just sold for what Chris Hohlstein describes as "a very large sum of money." For whatever reason—a health scare, a talk with his grandchildren, the fact that he had just sold one of his businesses—he had come to the conclusion that he wanted what Hohlstein's firm—Synovus Family Office— offered: legacy planning. "If we had met him 20 years earlier, he would have looked at us and said, 'You don't want to count your money too soon.'" In other words, he was still in the building mode. "But most people, if they live long enough, realize that their family and the legacy that they leave for their family, is much more important than how much money they leave," Hohlstein claims.

Of all the MFO models, the one built around legacy planning most resembles the soup-to- nuts, plush-carpeted movie version of the Family Office. It's here that the trusted advisor watches over and trains the next generation, so that the family wealth survives and future generations thrive. To accomplish that, Synovus runs what it calls a Leadership Development Institute. There they try to assess the strengths and weaknesses of each family member with the end goal of aligning those talents with the needs of the family business. "Of course, they are not all going to work for the family business; very few of them will," Hohlstein says. "So we try to understand how each of them will contribute to the family even if they're not in the business."

That can take a number of routes. For example, to help discover potential problems between parent and child or grandparent and grandchild, Synovus might administer personality tests to help family members better understand themselves and each other. They will also help the family develop a mission statement and even establish a system of family governance—the so-called Paris Hilton defense—with a family council or board of directors that meets regularly to review the business in light of the mission statement to ensure the legacy stays on track. If it all sounds a bit corporate, it's because it is. Corporations, if run well, have an unlimited life span. Families and family businesses, if run properly, can do that as well. "The family that started Synovus still retains a significant ownership interest in the bank after six generations," Hohlstein says. "The families that come to us want us to do the same for them."—GT

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