COHNREZNICK SPOTLIGHT

Retaining LIHTC leadership – Why succession planning matters

The loss of a CEO or top executive has the potential to hinder any organization until a suitable replacement can be found. While new leadership presents challenges, succession can be an opportunity for an organization to write the next chapter of its story.

The affordable housing industry has witnessed and will continue to see the retirements of industry veterans. The LIHTC program is well into its third "compliance period," and senior talent is nearing retirement age among some of the longest-tenured firms in affordable housing. Data provided to CohnReznick regarding the tenure of senior management for more than 30 housing credit syndicators suggest that the average CEO has more than 33 years of real estate experience, and heads of acquisition, underwriting, and asset management averaged 27, 28, and 27 years, respectively.

The wealth of experience among LIHTC senior management is impressive and a key contributor to the broad success of the housing credit program – and so, succession planning should be among the top concerns of all industry participants. With this experience comes a succession challenge: How does an organization "download" the depth of experience to the next generation of LIHTC leaders?

"Next in line" is not enough

When faced with succession questions, firms often expect that the retained longevity and knowledge of their remaining management will permit operations to continue to run smoothly. You could call this the "Next in Line" approach.

While we encourage succession planning to begin from within, relying on the assumption that the current staff is able and willing to step into a more prominent role is not prudent. And this approach is further complicated when private ownership is involved: It is often assumed that existing management will buy out departing ownership, but in our experience, that is rarely what practically happens.

Instead, we have seen forward-thinking organizations approach succession as an opportunity to engage in a much more extensive human resources program focused on company-wide leadership development. By assessing what attributes are required of a successful CEO or Chief Underwriter, organizations have been able to identify not only what makes a valuable employee but also what defines the most important aspects of their firm's culture.

The result is a leadership development structure that supports each employee's technical growth and aims to incentivize steps toward the organization's broader goals. A coherent culture emerges when employees' development goals align with the firm's mission.

Practical strategy

Succession planning efforts take various forms among companies; since no two are alike, no "one-size-fits-all" approach can apply to everyone. Some standard best practices we recommend, however, include:

- **The company's succession plan extends beyond senior executives to management-level staff.** Including management-level staff in the conversation and planning illustrates that the organization has plans to grow and develop staff beyond the top tier.
- **The plan is in place before there is a need.** Succession planning on the fly tends to produce less-than-ideal results. Key stakeholders should be consulted in the planning process to avoid unintended consequences of a sudden transition.
- **Planned redundancy smooths the transition.** Building in a period where the successor can work alongside the departing staff has proven valuable in transitioning relationships and processes.

And finally, remember that **vacancy can be an opportunity**. Some firms have taken advantage of a vacancy among senior management to modify their strategy. New staff members often bring new and different skills and relationships that can be used to accelerate strategic initiatives. For this reason, background and skill set diversity are increasingly valuable in succession planning.

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