The dramatic rise in the number of wealthy families in recent years has fueled rapid growth in the multifamily office industry. According to the Federal Reserve’s consumer finance surveys, the number of wealthy households in the United States doubled in the past decade; by 2005, more than 100,000 families in the United States had a net worth of more than $25 million. The Spectrem Group reports that the number of U.S. households with a net worth of $5 million or more exceeded one million for the first time in 2007.1 Recent turmoil in the financial/banking industry and resulting mergers have only added to multifamily office growth as families have become increasingly concerned about more-traditional service providers.

The allure of the multifamily office to the wealthy has been strong, but is it sustainable? The short answer is yes. Most multifamily offices offer both comprehensive financial management solutions and a broad menu of high-touch services. Faced with today’s volatile market conditions and an uncertain economy, the wealthiest U.S. families increasingly are turning to advisors to help them navigate these tumultuous waters. The just-released 5th Annual Family Wealth Alliance Multifamily Office Study 2008 reports that the growth in the median number of client relationships per participating firm jumped 25 percent in 2007, despite increases in fees and account minimums at many firms.2 A number of family offices surveyed reported adding staff to support increased service demands.

While industry growth is likely to continue, multifamily offices also face a multitude of challenges in the near future, owing in part to the success of the family-office model. For example, the recent growth has left a dearth of trained, competent professionals to advise ultra-high-net-worth families. Multifamily office firms struggle to fill senior-level vacancies, and it has become increasingly difficult to retain key talent. The industry is fragmented, with smaller firms discussing mergers and joint ventures as they seek economies of scale.

What is a Multifamily Office?

Historically, a family office was an exclusive, private company that discretely managed the assets, legal affairs, transfer of wealth between generations, philanthropic interests, and complex lifestyle needs of an exceptionally wealthy family. The first significant family offices in the United States were formed during the late 19th and early 20th centuries. Several of the most noteworthy include those of Robert Pitcairn, Amory Houghton, John D. Rockefeller, Henry Phipps, and Andrew Carnegie, who made their fortunes in railroads, glass, oil, and steel, respectively.

Today’s multifamily offices are as diverse as the families they serve and have evolved from several different sources. The Family Wealth Alliance study found that about 40 percent of multifamily offices surveyed “started from scratch … to serve the burgeoning demand for sophisticated, comprehensive wealth management services.” Still others evolved from financial planning firms, trust companies, accounting firms, or law firms. Many large commercial banks also have operations that offer private wealth services. Often these operations were started by acquiring existing multifamily offices; one such example is Sun Trust’s GenSpring Family Offices. Some established single-family offices recently have opened their doors to accept nonfamily clients or have merged with another single-family office. This appears to be a trend as single-family offices plan for successive generations and focus on sustainability. The Family Wealth Alliance study estimates that in 2007 more than 120 multifamily office firms were in the industry, “ranging from boutiques with a handful of clients to major national organizations serving hundreds of families.”

The average multifamily office has $4 billion under management. Notably only 18.8 percent of multifamily offices manage more than $5 billion, but these offices represent 77.3 percent of the assets managed by multifamily offices. The proliferation of multifamily offices has allowed a wider range of wealthy clients, even those who are not among the über wealthy, to access family-office services. The mean relationship size (assets under management) for multigenerational family clients in the Family Wealth Alliance Study was $49 million, and the mean minimum level of assets under management was just under $19 million. On the other hand, for a family to justify creating a new family office with an in-house team, it is estimated that a family needs to have a net worth of at least $250 million.

Tom Livergood, chief executive officer of the Family Wealth Alliance, notes that “the term multifamily office, or MFO, has become a catchall term” that is confusing to families. He counts nine “flavors” of family-office providers in the marketplace not including offshoots of the large institutional banks. Figure 1 shows the various types of family offices against a background of net worth and complexity that overlays assumptions about types of services offered. The simplest model is a “limited financial
planner or advisor” who basically supplies financial planning advice. Next on the scale is a virtual family office that may focus on investments and provides a network of outsourced professional services to fill the gaps. At the lower end of the complexity scale, providers tend to be more aligned with first-generation clients. At the opposite end of the complexity continuum, from the closed family office onward, the typical family net worth climbs to between $80 million and $500 million, and the office often provides services to multiple generations of a family. Both the level of net worth and the family’s complexity dictate the need for these family offices to specialize in multigenerational family office services to meet unique requirements, including family education.

**Service Offerings**

Services offered by multifamily offices can vary greatly with the most typical including investment management, record keeping and reporting, estate and wealth transfer advice, and comprehensive financial planning. Some offices, particularly those that evolved from a single-family office, also may provide tax planning and compliance work, risk management oversight (typically in the form of insurance and personal security advice), trust and fiduciary services, lifestyle enhancement (sometimes including bill paying, property management, and assistance with domestic staff), facilitation of family meetings and education, as well as support for philanthropic initiatives. Generally, as client family assets increase, so do service expectations.

**Fee Structures**

Pricing practices in the multifamily office industry are evolving, according to John Benevides, president of the Family Office Exchange. Fee structures vary widely, although assets under management (AUM) still is the predominant factor in determining client fees. Many firms charge a minimum fee to ensure that costs for clients with lower AUM are covered. An asset-based fee structure works well for multifamily offices that bundle services for clients and is easy for clients to understand. Other family offices charge basis points on AUM plus a retainer fee for noninvestment management services. Finally, due to growing concerns about “service creep” and resulting thinner margins, an emerging trend is the use of project-based fees, charged either as a flat fee or on an hourly basis.

**Selecting a Family Office**

Each family has unique needs and objectives when seeking a trusted wealth advisor. The most important criteria that high-net-worth families emphasize in the selection process, however, may be surprising. Interestingly, the Family Office Exchange 2006 Benchmarking Research showed that quality of advice, client service quality, and value for fee were the three most important factors. Business owners were more fee sensitive than nonbusiness owners, but in both cases investment performance came in a distant fourth.

The average high-net-worth family often has eight or more advisors who need to be coordinated. These include investment advisors, attorneys, accountants, tax preparers, personal trustees, and insurance agents. In addition, in a multigenerational family, yet another consultant may provide guidance for family governance and education of younger generations about the responsibilities of wealth. Figure 2 shows the multifaceted undertaking of wealth management, as presented by the Institute for Private Investors. Aligning these numerous advisors under a single, trusted advisory relationship often is the primary goal of families searching for a family office.

How can a family determine which family-office solution is right for them? An important first step in aligning a family’s interests is a self-assessment focused on family values, distinguishing attributes, inclinations, and aspirations. If the family is multigenerational, are family wealth education and mentoring desired? Does the family have an active operating business? Is the family’s lifestyle low-key or high-profile? Does the family have philanthropic interests or a foundation that needs to be managed? Does the family wish to preserve wealth or to grow it?

Many families also explore family-office alternatives by joining networking groups designed for high-net-worth investors. The Institute for Private Investors and the Family Office Exchange both provide member forums for discussion, access to proprietary Web sites, and educational materials, as well as listserves.
where members can ask questions and exchange ideas in a safe and confidential atmosphere. In addition, both the Family Office Exchange and the Family Wealth Alliance offer consultancy services to help families sort through the maze of choices.

Given the significant switching costs (both monetary and emotional) in joining or changing a multifamily office, it is imperative that a family make the right decision up front. Having to move assets yet again can be expensive and detrimental to a family’s long-term financial objectives. In evaluating a family office, high-net-worth family members need to make sure that they are satisfied with answers to the following questions:

**Culture**

Does the office respect and share our family's values? Is there a similar generational profile? Are there other families served by this office who have comparable assets to those of our family? How does the office measure its success? Does the firm have experience with issues like my family’s?

**Services**

What range of services does the firm provide? Which services will the office provide for my family? Are the services provided in-house or are they outsourced? How long has the firm been providing family-office services? How many clients does the firm serve? How many clients per advisor? Will the firm provide a sample engagement letter? Does the firm provide references to other client families that they serve? Who will serve my family? What are their credentials?

**Structure and Fees**

What is the firm’s history? What is the firm’s governance structure? What is the firm’s ownership structure? Do client families have a stake in the firm? Does management have an ownership stake? What are the leadership team’s credentials? What is the succession plan? Is the firm part of a larger financial institution? How diversified is the firm’s revenue base? Is the firm a private trust company or a registered investment advisor? What procedures does the firm have to satisfy regulatory requirements? Has there been any merger activity? How are fees structured? Are fees competitive? Is this a good value for my family?

**Investments and Quality of Financial Advice**

Does the firm directly manage investments in-house or does it use only outside money managers? Is the firm compensated by managers it recommends to client families? What percentage of the products or funds offered is proprietary? Does the firm generate any revenue from selling investment products? What is the consistency of investment performance? How does the firm provide downside risk management? What other conflicts of interest may exist? How often will I receive reports? Will the firm provide a sample of their standard reports?

**Security and Confidentiality**

Does the office have a disaster recovery procedure? How often does the firm actively test to verify this plan? How do you secure the confidentiality of my family information, both financial and personal? Does it have confidentiality agreements with outsourced vendors?

**Conclusions**

Recent growth within the family-office industry has produced numerous viable alternatives. There is no single right answer or recommendation for a wealthy family searching for a trusted advisor relationship to steward its

*Continued on page 42*
wealth (whether inherited or created) for successive generations. Finding the optimal fit between a wealthy family and a multifamily office requires careful investigation of independent and objective investment and financial planning services and family-related services and fees, as well as a thorough reflection of the family’s generational make up, aspirations, values, need for privacy, and customized services. The importance of transparency and a common understanding between the family seeking advice and that of the multifamily office cannot be understated. Like a good marriage, only through a committed, open relationship can the multifamily office provide truly integrated family-office services.

Marianne W. Young is president of Market Street Trust Company, a client-owned wealth management firm in Corning, NY, where she works with the board of directors on strategic issues and with individuals and family groups to facilitate financial and estate planning. She also advises several family foundations. Ms. Young earned a B.A. from Mount Holyoke College, an M.S. Ed. from the University of Rochester, and a J.D. from Cornell Law School. Contact her at myoung@marketstreettrust.com.

Beth A. Landin is managing director for Market Street Trust Company, where she is responsible for strategic planning, business development, and managing key business initiatives, and works closely with Market Street’s Client Services team to ensure excellence in client satisfaction. Ms. Landin earned a B.A. in economics from the University of Mary Washington and an M.B.A. from the Darden School of Business of the University of Virginia. Contact her at blandin@marketstreettrust.com.

Endnotes