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Editorial  
Calendar

Media Planner

Reprints

Issue/Article  
Orders

Issue Index

Current  
Advertisers

Contact

Building Your Business

## Multiplying Success

Partnerships and joint ventures add value and increase opportunities.

By Sara Drummond

**M**ichael K. Houge, CCIM, SIOR, thinks partnerships should defy conventional mathematics.

"One plus one should equal more than two. The sum should be greater than the parts," he says, reflecting on his 15-year partnership with Keith A. Sturm, CCIM. Both are principals of Upland Real Estate Group in Minneapolis, which they started together several years ago.

His assessment must ring true for many commercial real estate professionals, as the annals of the industry's history are a testament to the power of the ampersand: Cushman & Wakefield, Grubb & Ellis, Marcus & Millichap.

Do partners make for better real estate?

"No way!" says Mark S. Malan, CCIM, president of Accrued Financial Services in Long Beach, Calif. "Life is too short to quarrel over the color of the exterior stucco or type of flooring product to be installed. Although we occasionally take on 'investors,' we are clear to communicate that we don't want any 'partners,'" he says.

But partnerships can provide a solid base on which to build. "Factors that are changing today's market favor all models including partnerships," says Mark Van Ness, who with partner Rand Sperry created SperryVanNess in 1987. "As a result of our partnership, we were able to implement new technology, a nationalized marketplace, and a broader investor base that led to the company's national expansion in 2001."

The use of technology has leveled the playing field and the changing nature of the business increasingly favors partnerships in some form. These include working partnerships, joint ventures, and associations between affiliated companies. And while sociologists say we're social animals meant to work together, any project team manager will tell you that cooperation is more a learned skill than a natural inclination. Does the extra effort it takes to work with other human beings really improve the deal?

### The Nature of the Business

Unlike most partners, Houge and Sturm weren't really looking for a partnership when they started out. But working as brokers for the same company, "It was the culture of the company to partner," Houge says. "There were no lone wolves."

They liked and balanced each other: "Keith was strong in tenant rep and I was strong in landlord rep," Houge says, so they paired up and split commissions regardless of who made the deal.

Today, that aspect is still the same: 50-50 split in partnership and investments. However, their two-person partnership has grown to a 22-person company with four divisions: net-lease properties, tenancy-in-common investments, mortgage services, and brokerage.

The two also split responsibilities. Sturm manages Upland's net-lease brokerage while Houge focuses more on investment and development, overseeing the TIC unit they started four years ago. While both make their own decisions regarding their dominant areas, when it comes to human resources and administrative duties, they share the pain.

"We have weekly meetings and all decisions [about running the company] are made



Sara Drummond is senior  
Commercial Investment

### Partnerships

The basics of forming a partnership, whether long-term or short-term, divide into two categories: human.

### The Legal Issues

Few partnerships rely on anything anymore. Most commercial partnerships establish a company, which is much simpler and provides more flexibility. Corporations, two other common name indicators, LLCs and limited liability - they are partnership debts, as partnerships and some family partnerships. Along with protection, LLCs allow distribution of profits and taxation. They require no limitation on the number of partners on who or what can be corporations, other LLCs, can be members. However, declares bankruptcy or dissolves.

LLCs can be established by filing articles of organization, paying the appropriate fees, and commercial real estate practitioners should consult tax professionals to determine appropriate agreements: partnership.

### The Human Issues

Like all relationships, partnerships are subject to all-too-human factors: lack of communication, misunderstandings. Such destroy a business, which loss of invested time, money. To avoid such problems, president of BMC Association a nonbinding agreement Partnership Charter: How Right With Your New Partnership (or Fix the Old) recommends that old and partners create a written covers "the issues that will the partnership

"Creating a partnership people a much clearer sense intend to do together," G.

jointly," Houge says. "You'd think that would be easy, because you don't have to run it through a board of directors or anything, but it's harder because it's only two people who have to decide everything."

Complicating matters are their different approaches to decision making. "Keith is more conservative. He wants more information before making a decision. I tend to be more impetuous. If I had been in charge, I would have spent us out of business years ago," he admits.

But at the end of the day, their different approaches "balance each other out. The combination of the two styles forces us to make good decisions," Houge says.

Such combinations of divergent styles often are the hallmark of a great partnership. Now one of the largest commercial real estate companies with more than 700 affiliated advisers, SVN started as a "partnership of diversity," Rand says. "Each of us had skills that complemented the other. I was better at business development, from recruiting to training to bringing in new clients. Mark was better at focusing on the big-picture vision and day-to-day operations. Our partnership worked because we supported each other. We have the same incentives and the same motivation, and we are not focused on who is bringing more value."

### Project Partners

Sperry and Van Ness chose the partnership model because "it's a high risk venture, so it was a capital issue," Rand says. But even when forming investment partnerships, commercial real estate professionals can create the added value that makes partnerships so successful.

"It's not always the money that makes the best partner," says Mark A. Johnson, CCIM, of Border Properties in Brownsville, Texas. "Rather, it's the impact those partners will have on the goals and objectives of the entity." When Johnson put together a partnership to develop a 1 million-square-foot industrial park, he was looking to "control the local market." His partnership consisted of a broker, trucking company owner, a general contractor, and a warehouse specialist who also was a stevedore. If an industrial prospect came to town looking for space "this partnership would know about it," he says. "You have to think beyond the development and understand what makes this type of tenant work." A side benefit was that the "relationships established because of this partnership have created as much business between the partners as it did for the industrial park."

Even in large joint ventures, looking beyond the money often is the only way to choose partners, says Carey Doyle, CCIM, vice president of Guiberson Ventures Investment Fund in Phoenix. The Asian-based family trust did \$2.78 billion worth of projects in China, Kazakhstan, and the U.S. in 2006. "Guiberson invests in relationships and people rather than projects. You can always find a great project; it is very difficult to find a great relationship."

### Partners for Profit

But more often than not, money is the object of commercial real estate partnerships. Finding a partnership formula that works successfully more than once can be one way to build a portfolio, says George Larsen, CCIM, of Larsen Baker in Tucson, Ariz. "When Larsen Baker was getting started it was 1990, and we were in the depths of a real estate recession. We had no money, but there were terrific bargains to be had."

Larsen set up a joint venture partnership with a doctor/client. "The doctor [we were working with] had a \$2 million line of credit. We would use her credit line for the down payment on the type of fix-up properties we liked. [My partner] Don and I would sign personal notes to repay her first before we took our profits." The doctor, Larsen, and Baker were all in for one-third of the deals, with no upfront sponsor or development fees.

"The doctor put up all of the cash for one-third of the profits; however Don and I accepted full recourse for our one-third each equity positions. So if the deal went south, we were personally pledged to repay her two-thirds of her invested capital."

Larsen and Baker used this format for more than 20 transactions, building up what Larsen calls a "considerable portfolio of shopping centers that we own and manage with [the doctor]." The team usually buys turnaround properties, which it refinances after increasing the net income, paying the joint venture partner back from the conventional loan and starting over. Before that, "Larsen Baker has to give her all the property's cash

book. "It defines who they and what the vague word to them." Partnership of reflect the concerns of individuals involved, b elements below are esse include.

- **Expectations:** Part document what they expe the business and how happening, considering st as adding new partners, g employee partici

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- **Values and ethics:** have to share the same v should determine their tol differing values as well a: their values playing out i partnership

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- **Planning for the end** should always cor

Commercial real estate pr deal with partnerships businesses as clients als Gage's book offers insight can paralyze group dec processes

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Is your business relations belly up? Here are sever indicate a business partne according to business c Lahavi of Next Level B Professional Coa

- Communications b

- Competitive, not con interaction

- Conflict becomes

flow until we have returned her capital. But in the meantime, we can take the leasing and management fees."

### **If Good Partnerships Go Bad**

Whether they are designed to last a lifetime or only through one project, most commercial real estate partnerships have to guard against the prospect of things going wrong. Although Malan doesn't think of his investors as partners, he protects himself with a contract that "calls for binding arbitration if there is a problem. It also limits [investors'] claim of damages to the cash invested, inclusive of all costs. So if ever anyone was unhappy I'd just give them all their cash back. But they would be barred from ever investing in my deals again."

Keeping things simple also works for Donald G. Arsenault, CCIM, of Arsenault Realty Advisors in Tacoma, Wash. "I have a clause in my partnership agreement that should my partner and I ever disagree and feel so strongly that we cannot agree, then we have agreed to settle the issue by the toss of a coin." The two partners are redeveloping an office property in Tacoma and have yet to invoke the coin toss rule, "although we joke about it sometimes," Arsenault says.

Do long-time partners Houge and Sturm ever think about splitting up? "About once every three months," Houge says. Sometimes the competitive nature of the business just doesn't go away. "Life happens, and there are times when one partner is more successful in closing deals than the other," he says. "You get this sort of 'what have you been doing lately' attitude. But that other person looking at you works as a catalyst. It gets you moving," he says.

And "there are times when you have to sit down and look eye to eye and work out whatever issues come up. You have to ask yourself, Is this still fun?" The fact that both Houge and Sturm could go out on their own and succeed without the other in some ways helps to keep them together. "As long as one plus one equals more than two and we're having fun, why would we want to go out and try to rebuild this?" Houge says. "This works."

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