SUCCESSION PLANNING

Every real estate company needs a clearly defined, documented and communicated succession plan. There are no exceptions! Whether your company has 10 or 10,000 employees, whether you are a family-run business or a REIT, whether you work for others or for your own account, a well-conceived plan of succession is essential for survival. According to a recent study by the Massachusetts Mutual Life Insurance Company, more than 56 percent of CEOs today expect to retire within 10 years. Nearly 30 percent are expected to change leadership within the next five years. The same statistics hold true for the real estate industry. However, only 24 percent of real estate firms have a plan of succession, and 65 percent of these plans have not been formalized or announced. The primary reasons that this phenomenon is occurring are: (1) a reluctance to designate or announce a successor, thus avoiding the need to explain why to those who were not chosen; (2) the lack of a qualified candidate among the senior leadership team and announcing that an outsider is going to be the successor may be a problem for some; (3) the perceived invincibility factor (i.e., "Nothing will happen to me."); and (4) the Founder/CEO does not want to let go. Bottom line, however, every real estate company needs a plan of succession. There are seven steps that must be undertaken and completed in order to implement a succession plan. **Step 1: Determine Shareholder(s)' And CEO's Vision And Goals**: Every succession plan begins with a clear and agreed-to vision and long-range business plan between the Shareholder(s) and the CEO (which in some cases may be the same individual). Answers to questions such as where is the company today; what do we want the company to look like in the future; what are the key strategies needed to achieve the vision and long-range goals; and how does and should governance within the organization work? The CEO must declare his or her goals, retirement timing, willingness to let go, expectations for a successor and desired level of involvement during the transition period.

Step 2: Prepare A Position Profile For The Successor: One of the classic mistakes made by the Board of Directors, Shareholders and CEO is selecting a successor "like them." The goal must be to select someone who can lead the organization, region and/or division ten or fifteen years from now, not who could lead the firm in the 1980s or 1990s. The knowledge, leadership skills, organizational and product skills, etc. will be far different in five, ten or fifteen years. Step 2 involves the preparation of a Future Position Profile ("FPP"). Input must be obtained from all directly and indirectly involved with the company, real estate strategists, advisors, capital partners, etc.

Step 3: Compare The FPP Against Potential Internal Successors: Using an independent advisor, an objective assessment must be made of all potential internal successors. Each potential successor should be evaluated and rated by multiple individuals. Obtaining an evaluative scorecard on each potential candidate is critical. All potential candidates and their overall scores should be ranked. Any candidates with a rating less than 80 should be dropped off the list. Candidates with overall scores in the 80 - 89 range should

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be assessed as to the likelihood they could improve their score dramatically over time. Those candidates with a 90 or above rating should be considered the primary individuals for succession.

Step 4: Select The Top 1 To 3 Potential Successors: In some cases, the successor is clear. In some cases, there are two to three potential successors, and in some cases, there are no internal successors. If there is one "perfect" successor, the choice is clear… now is the time to move to Step 5. If there are multiple successor candidates, the CEO and Board need to establish a screening or filtering plan that gives everyone one to two years to closely evaluate each candidate and determine the best choice. If there are no successors, then establish a process for identifying and selecting that individual (perhaps hiring them or placing them on the Board) is the next step.

Step 5: Develop A Transition Plan: Once a successor has been determined, a two to four year plan of transition must be developed. If the CEO wants to work another 10 to 15 years or more, the two to four year transition plan must still be developed. Delegation of authority, involvement in key hires and decisions, and visual leadership are some of the components of a transition plan.

Step 6: Implement And Communicate The Succession Plan: Once everyone is in agreement as to the successor and transition plan, the decision must be communicated to the organization and to key customers.

Step 7: Monitor The Succession Plan: Not every succession plan works as perfectly as desired. There are always surprises along the way. At a minimum, every six months an independent assessment should be made on how well the succession plan implementation is proceeding.

Conclusion: If your organization doesn't have a plan of succession, it is at a strategic disadvantage. Successors should be identified for all mission critical positions. The seven steps described above should be facilitated by an experienced real estate advisor. When it comes to securing a long-term future for one's organization, Shareholders, estate(s) and customers, success cannot be achieved by "winging it." Every leader is vulnerable to events that are never expected but often occur.

For more information on how CEL & Associates, Inc. can assist your organization in the preparation of a Succession Plan, please contact us by calling 310.571.3113 or via email at chris@celassociates.com

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