THROUGH GOOD TIMES AND BAD: MANAGING STRATEGIC PARTNERSHIPS

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Condev Commerce Centers, Inc., formed in 1979, was created by Condev Inc. to develop and invest in industrial properties in the Orlando, FL market. Condev Inc. had been active in the market for decades as a major residential apartment developer and was seeking to diversify into the growing market for commercial warehouse and business space in Central Florida. In the early 1980s, Florida was beginning to recover from its latest real estate bubble, during which Condev had lost many of its properties through foreclosure. But, Condev still had a good reputation along with some working capital and access to credit. Surviving the newest real estate market downturn would also depend on the creation and management of strategic partnerships.

Anthony Bruno knew he was in trouble. As an industrial real estate investor since the 1970s, he knew how to work complex, profitable deals with corporate players. His experience taught him when to buy, when to sell, and when the deal was too good to pass. He also knew when things were going in the wrong direction. He could tell he was finally on an incredible deal which could disintegrate in moments.

THE PLAYERS

Bruno began thinking about what had led him to this point. In 1979, Bruno joined three partners in the newly formed Condev Commerce Centers, Inc. The original three were long- time original co-owners of Condev Inc. They brought start-up funding, local knowledge, and project financing to the business. As the fourth partner, Bruno had recently moved to Orlando from Cincinnati to pursue industrial real estate investment opportunities. As Bruno explored the Florida commercial real estate market, he connected with Condev Inc. and after some discussion and deliberation, they formed Condev Commerce Centers as a stand-alone entity. Bruno, the sole employee, became CEO.

THE AGREEMENTS

Commerce launched its first project in 1980. It was a multi-tenant office/showroom building on the main thoroughfare connecting Winter Park to University of Central Florida. It was a spec project and obtaining financing was difficult. Along with submissions to local banks, a loan request was made to General American Life Insurance Company, which had a local office for originating long term permanent financing on existing commercial/industrial buildings. Rather than supply financing, General American offered to buy the property when completed. GA was prepared to issue an unconditional purchase agreement to be closed upon completion of construction which would allow Commerce to obtain construction financing from a local bank.

Commerce and GA negotiated an agreement structure that provided for purchase of the project at shell completion and continued funding for tenant improvements and related lease-up costs along with a project management fee for Commerce. The final price and payment for the project was calculated and paid by GA at completion of lease-up. That final price was determined by annualizing the total net rent income sum generated by the leases, capitalizing that sum at a rate negotiated at time of contract negotiation and subtracting project funds already advanced along with an accrued interest rate. Commerce retained a property management and leasing contract for the project after closing.

Commerce initially received office services from Condev as they shared space. The negotiated agreement was that Bruno was to receive 40% of net profits and initially was to be paid a salary in the form of an advance against future profits. The contract structure for this first project was so successful that GA and Commerce continued to collaborate on 9 projects based on that same formula for almost a decade.

THE BREAKDOWN

By the mid 80's the relationship between Bruno and the original Condev Inc. struggled over issues of fairness and equity. Commerce gained success early and ceased to need support from Condev. While sharing office space with Condev, Commerce became wholly independent, operating with its own employees, its own working capital and its own business relationships. Over time, the relationship with the Condev partners broke down. Condev required that their share of profits be fully and frequently distributed to them, leaving Bruno to operate Commerce exclusively on his share of profits. Other than the original startup seed money, there was no ongoing contribution from Condev to Commerce.

Seven years into the relationship, Bruno asked that his share of distribution be increased to recognize the success of Commerce and his ongoing commitment as its CEO. After protracted discussions and negotiations, the effort to gain a restructured agreement failed. Bruno acquired the Condev interest in Commerce, moved its offices and changed its name to The Ensign Company in October 1987.

Ensign retained its exclusive relationship with GA and continued to manage GA's properties. Retaining management of buildings became a dependable source of core income as well as providing Ensign with a growing presence and reputation in the Orlando commercial real estate market. By 1989, GA ended its acquisition of properties as the Orlando market softened and continued to weaken through the early 90's…just another Florida real estate bubble.

The early 90's economic downturn was a difficult challenge for developers and many commercial properties were lost through foreclosure. However, the downturn also presented new investment opportunities for those with access to capital.

Ensign, acting as General Partner, originated limited partnerships to raise capital from individual investors. An investor could usually acquire a limited partnership unit, typically priced at $25,000, and receive a minimum priority return before a general distribution of profits to the remaining partners. Through the use of these limited partnerships, Ensign acquired several distressed office/industrial properties at discounted prices.

In early 1991, General American foreclosed on a 50,000 square foot office/warehouse in Jetport Center, a multi-building development in the Tampa Airport submarket. GA offered to sell it to Ensign with financing assistance. Ensign entered the Tampa market with the acquisition. Soon after, within the same Center, another lender, Travelers Life Insurance, foreclosed on three other buildings. Ensign and Travelers negotiated price and terms but Traveler's declined to provide financing assistance. Ensign entered into contract contingent on third party financing and due diligence results. Obtaining acquisition financing proved impossible for Ensign during the market downturn. Bruno knew he was in trouble. He was under contract. How could he turn this around?