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Succession Planning for Commercial Real Estate Firms: Benefits, Best Practices and Common Challenges

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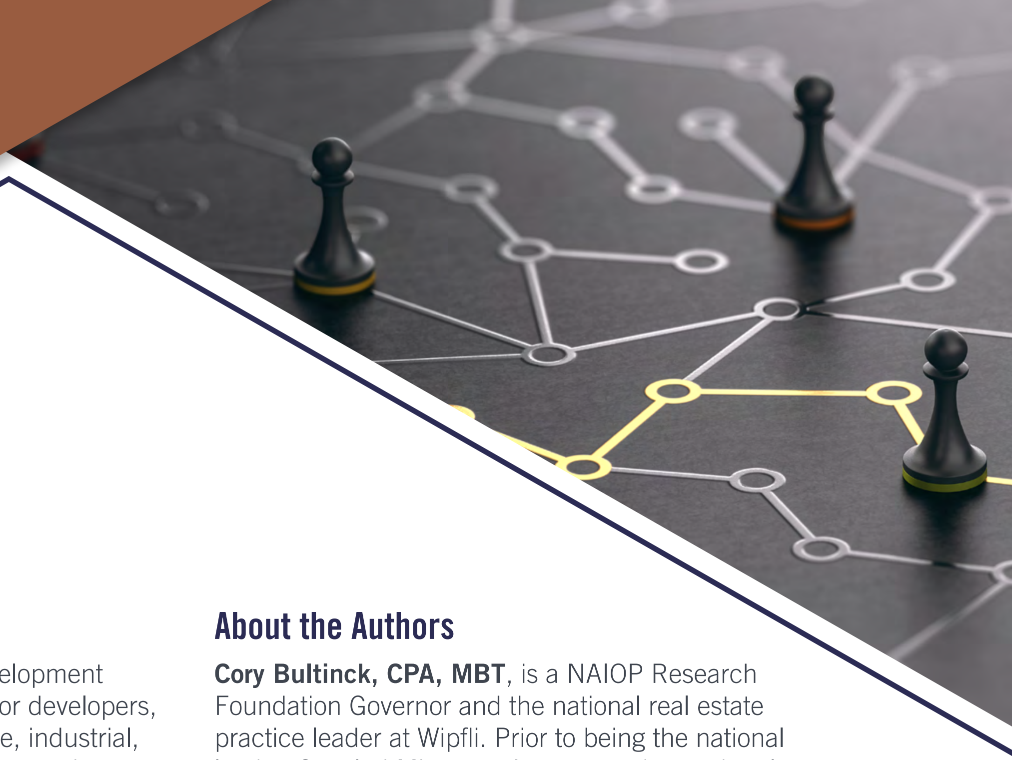

About NAIOP

NAIOP, the Commercial Real Estate Development Association, is the leading organization for developers, owners and related professionals in office, industrial, retail and mixed-use real estate. NAIOP comprises some 21,000 members in North America. NAIOP advances responsible commercial real estate development and advocates for effective public policy. For more information, visit naiop.org.

The NAIOP Research Foundation was established in 2000 as a 501(c)(3) organization to support the work of individuals and organizations engaged in real estate development, investment and operations. The Foundation's core purpose is to provide information about how real properties, especially office, industrial and mixed-use properties, impact and benefit communities throughout North America. The initial funding for the Research Foundation was underwritten by NAIOP and its Founding Governors with an endowment established to support future research. For more information, visit naiop.org/foundation.

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Disclaimer

This project is intended to provide information and insights to industry practitioners and does not constitute advice or recommendations. NAIOP disclaims any liability for actions taken because of this project and its findings.

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Executive Summary

Preparing and implementing a plan to transfer control of a firm to a new generation of leaders can be a daunting prospect for business owners and senior executives in any industry. It can take years of careful planning to develop a blueprint that will satisfy current and future leaders and support a firm's long-term success. Leaders of commercial real estate (CRE) companies often face additional, unique challenges due to their firms' complex valuation processes, intricate tax strategies and multifaceted ownership structures.

The NAIOP Research Foundation commissioned this study to explore the challenges and opportunities associated with succession planning for CRE firms. The study draws on Wipfli's experience advising firms on succession planning and interviews with CRE professionals at various stages of the succession planning process who represent a broad cross-section of CRE firms. This research reveals that most succession plans seek to accomplish these key objectives:

- Ensure business continuity by providing for contingencies, such as the death or disability of current leaders, and maintaining existing business relationships through a planned transition.
- Ensure an ownership transition maintains a firm's value but also provides fair compensation to exiting owners and minimizes tax implications.
- Ensure alignment between current owners and their intended successors on cultural values and the strategic direction of the firm.

Factors such as a firm's legal and organizational structure, financial condition, owner objectives and the readiness of prospective successors to take on leadership roles shape the details of an effective succession strategy. However, this study identifies several best practices that can help all CRE firms navigate the process of developing and implementing a succession plan. These include:

- Begin the process early, preferably years before an expected succession. Early planning reduces risks associated with an unplanned transition and gives a firm more time to prepare successors.
- Carefully identify successors who will be capable of and interested in running the firm, and prepare them with any additional training or experience they will need.
- Leverage planning teams and outside experts. Establishing a transition committee and engaging objective third parties can help a firm navigate the process.
- Communicate about the succession plan with employees, lenders, investors and other stakeholders to build confidence in a successful transition.
- Regularly reassess succession plans and make changes as needed to adapt to new circumstances.

Introduction

The aging workforce and a shortage of talent are spurring challenges for companies looking to ensure a smooth leadership transition,[1] and real estate organizations are no exception. As in all industries, firms aim to perpetuate value to the next generation while navigating complex financial and legal considerations. Succession planning is not a one-size-fits-all approach and requires careful articulation of the relevant tangible and subjective concerns.[2] Poor (or no) planning can result in substantial adverse consequences for a firm's financial stability and long-term viability.[3] Moreover, planning ahead allows exiting owners more time to select the most beneficial method of ownership transfer (e.g., to current co-owners or employees, via inheritance, selling to a third party), understand the financial planning required (e.g., insurance, portfolio adjustments, tax strategies), and evaluate the pros and cons for each approach.

Firms must ensure clear succession plans and that key players are aligned on the firm's long-term strategy. This can be particularly challenging for family-owned firms, where past research has highlighted a disconnect between the expectations of current leaders and their successors. According to a recent survey of family enterprises, just 8% of current leaders expected next-generation business members to sell part or all their business interests, while more than double that proportion (18%) of the next generation was planning to sell in some way.[4]

This study sought to understand the organizational readiness of CRE firms for leadership transition. To better understand the challenges associated with succession planning and how current leaders have navigated them, the authors interviewed CRE professionals in varying phases of succession planning. Whether triggered by age, health, successor readiness or market conditions, those with succession plans, developing them or in the planning stages were proactive and thoughtful about how to manage transitions while maintaining relationships and the value of the business. They wanted to preserve their assets, maintain business stability, continue growth, create peace of mind and prevent potential conflicts.

> "We want to stay relevant, stay young. We want to be able to recruit talent. We want to keep growing as a company."
>
> ▪ **PRESIDENT, FIRM WITH MULTIPLE OWNERS**

The succession planning process often took place over several years, with many of those interviewed acknowledging the benefits of gradual transition. Moreover, across the interviews, similar steps and advice emerged that helped facilitate the development of best practices identified in this report. These guidelines are pertinent for CRE firms considering or currently engaged in succession planning and cover the entire process, from proactive planning to developing structure and documentation, identifying successors, implementing a plan and performing ongoing evaluation.

While the best practices identified in this report apply to all ownership structures, family-owned businesses benefit in distinct ways. When clear criteria and requirements are established, potentially sensitive or emotional conversations become objective business decisions. Taking a proactive approach helps avoid future conflicts, preserving both business continuity and family relationships. By mapping out expectations for potential successors and the company's future vision well in advance, younger family members can thoughtfully evaluate their interests and prepare accordingly, gaining the necessary internal and external qualifications.

Methodology

This report details the comprehensive findings of a study of CRE business professionals at various stages of succession planning (including those considering developing a succession plan). The study's objective was to learn about the process, challenges, benefits and best practices at different stages of succession planning, along with the sentiments, attitudes and learnings of CRE business professionals and owners in different situations.

Through a series of one-on-one in-depth interviews with 22 CRE professionals (15 NAIOP members and seven Wipfli clients), participants were asked a variety of open-ended questions about their succession planning practices, priorities and experiences. Questions centered on their preparedness and time horizon for succession, financial planning, successes and challenges encountered, what was most important to them when it came to certain facets and outcomes of their plan, and how they achieved those desired outcomes. A research team at Wipfli conducted the interviews, and an independent research firm, The Dieringer Group (The DRG), analyzed the results.

To ensure comprehensive findings, participants hailed from firms ranging in size from $1.5 million in annual revenue, with fewer than 10 employees and a local presence to $5 billion in annual revenue, more than 10,000 employees and a national reach. Additionally, variation existed in succession planning status and business ownership structure. Below is the breakdown of the different situations represented by study participants:

TABLE 1 Succession Planning Status and Ownership Structure

	Family-Owned	Multiple Owners	Partnership Model*	Sole Proprietors
Succession plan already in place	1		1	1
Undergone succession plan recently	3	3		
Currently going through succession planning process	2	1		2
Considering succession plan but do not have one in place	4	2	1	
No succession plan and no plan to develop one		1		

*Indicates that a firm functions in most ways as a partnership, regardless of its legal organization.

This report summarizes discernible patterns from the interviews, which were rich with insights. The findings are detailed in four sections: the succession planning **process**, the primary succession planning **challenges** experienced by CRE business owners, the reported **benefits** of succession planning, and—the primary focus of this report—**best practices** in CRE business succession planning.

The Process: A Balanced Approach Is Key

Business succession planning processes in CRE are highly complex and unique, and they can vary among business owners depending on several factors. However, one sentiment arose repeatedly across all the conversations with participants: A balanced approach is paramount to effective succession planning. Balance is needed between short- and long-term goals, formal structure and agility, internal knowledge and external expertise, new and existing talent, and family or personal interests and business interests.

> "You are having to negotiate and come to an agreement around things, and I think that's challenging. Coming together and having a thoughtful and honest conversation about where's the middle ground and how do we come up with something that works for everybody is important."
>
> ▪ **PRESIDENT, FAMILY-OWNED FIRM**

Short- and Long-Term Goals

Succession planning typically pursues a common set of goals, such as establishing predetermined plans for dealing with the unexpected, providing an exit plan for owners, creating a legacy, and passing on value or an inheritance. The importance of these goals may vary by type of firm and are shaped by a firm's immediate and future needs. In the shorter term, plans may require interim leadership solutions to bridge gaps and will typically include contingency plans to provide a path forward during an unexpected change or crisis. Over the long term (e.g., more than a few years), anticipating future needs, establishing frameworks to address them and cultivating potential successors will allow for a smooth transition.

Formal Structure and Agility

Developing a formal structure and plan as early as possible is good practice that allows for clear and seamless transitions. The best plans also maintain flexibility to adapt to emerging challenges or opportunities. Mechanisms for continued reassessment allow companies to pivot as needed rather than sticking to a rigid plan that may no longer make sense for the business and owner(s).

Internal Knowledge and External Expertise

The most successful plans leverage both institutional and objective knowledge. Combining a firm's own knowledge base and expertise with an outside perspective can ensure all angles are considered to best develop a plan that positions the firm for sustained success.

New Versus Existing Talent

Identifying desired criteria for leadership positions enables the firm to strike the right balance between developing internal talent and recruiting external candidates. Determining the needed mix of internal and external experience ensures that any gap in prioritized skills and experience can be filled most effectively. In family-owned firms, this lays the foundation for the capabilities next-generation leaders should gain both within and outside the business.

Family and Business Interests

The balance between family and business interests profoundly impacts family-owned businesses, shaping their decision-making, operations and long-term sustainability. Respondents at family-owned CRE firms indicated they faced challenges harmonizing family priorities and business interests in their succession planning. They expressed that balancing personal relationships with the professional performance of the business requires transparent and open communication, defined and objective leadership criteria, and, frequently, external support.

The Challenges: Navigating Complexity and Uncertainty

While most of the conversations surrounding succession planning were positive, participants encountered some common challenges.

Valuation and Financial Planning

The unique nature of CRE can present challenges in succession planning due to the complexity of valuation processes, elaborate tax strategies and intricate ownership structures.

While market conditions may not fundamentally affect a firm's decision to engage in succession planning, they can significantly impact the mechanics and timing of implementation. Firms must take care when planning to sell, transfer or liquidate some assets because their value under their current debt service structure may be much higher than what would be obtained if the assets were sold to the open market. This creates difficulties around timing—specifically how to extend ownership periods to maintain favorable debt terms while still providing opportunities for investor liquidation.

The illiquid nature of real estate assets is particularly challenging for estate planning. If the firm does not have enough liquidity, either through life insurance, cash, stocks, bonds or money market accounts, and a succession plan requires that real estate be sold to satisfy obligations to inheritors, other owners or lenders, it may not get the anticipated fair value of the assets. Liquidity concerns become more difficult in smaller markets with fewer potential buyers, which may represent a large share of a regional real estate firm's holdings.

Furthermore, it can be difficult to transition and retain the value of the entrepreneurial and service components that are integral to a real estate firm's success and market strategy (e.g., the assessment of local market trends and project financial feasibility, property management, valuation services). The key is to translate the personal expertise of current leadership into shared knowledge and best practices that will maintain the quality of an organization's professional services and business intelligence through a transition.

Respondents discussed these thorny issues as they described some of the challenges they have faced in thinking through their succession plans:

> "We're just a little bit of a hard company to finance because we are a true professional services company. We don't have any assets really. Some of that was a little tricky."
>
> ▪ PRESIDENT AND CEO, FIRM WITH MULTIPLE OWNERS

> "Some would argue we are the company, so what do we have to sell if my brother and I leave? [...] We've had EBITDA growing every year, and profits are good. That makes the company more valuable on paper. But when you talk to people that sell businesses, most of the value is us."
>
> ▪ VICE PRESIDENT, FAMILY-OWNED FIRM

Size, Complexity and Family Dynamics

The complex legal and financial organization of large CRE companies can pose unique challenges for succession planning. Many successful real estate firms have simple organizational structures comprising fewer than 10 employees but oversee hundreds of properties and serve thousands of investors of various sorts and sizes. Moreover, each property can be held in a partnership subject to an operating agreement with its own unique governance, economic arrangement, financial terms and decision-making process. Succession planning for firms with this structure differs substantially from those with traditional corporate hierarchies and operating businesses because it is not a simple transfer of one business; rather, a firm is trying to move hundreds of businesses.

Complex ownership and financial structures may also overlap with the departmentalization of an integrated real estate firm into teams, formal divisions or subsidiaries that specialize in different verticals, such as development, asset management, property management or construction. This increases the challenge of preparing future leaders to manage all aspects of the firm's business.

> "We're not just a development company, [and] we're not just a property management company; we're [also] one of the larger construction companies in the state. You need to bring in somebody who understands the risks associated with three very different businesses. We've had to break the business up into three legal entities for insurance purposes and financial purposes. [...] You can't just pluck a development professional or executive off the line and say, 'OK, now you're going to run a property management business and a construction business.'"
>
> ▪ **PRESIDENT, FIRM WITH MULTIPLE OWNERS**

Respondents from larger businesses also indicated that managing many different interests and opinions proved to be challenging. Adding to the difficulty, leaders often had varying levels of emotional attachment to the business.

> "Trying to get five people to agree to how long you are going to work, how much risk you are going to take, how much money you're going to retain all the time, and how you buy out or buy in. There were lots of questions."
>
> ▪ **CEO, FIRM WITH A PARTNERSHIP MODEL**

For families, the dynamics can be even more complicated. One of the most difficult situations arises when family members who have not worked in the firm—yet still have an emotional investment and influence—lack the deep business understanding needed to make the best decisions for the company. Some respondents also reported uncertainty about how family members would work together in the future, their capabilities, and their level of interest in the business. Additionally, some firms faced large age gaps that necessitated interim planning.

Relationship Continuity

Success in CRE relies heavily on personal relationships with banks, investors and tenants. When leadership changes occur, it can be difficult to preserve long-standing relationships with the same level of trust and confidence. Depending on the complexities of business and interpersonal or family dynamics, building trust can be a lengthy process for new leaders. It isn't surprising that key stakeholders may initially express skepticism about a leadership transition. To maintain healthy relationships with these stakeholders, it is critical to minimize uncertainty about the future and ensure that the right successors, with the right skill sets, are being identified and primed for a future transition.

> "Some of the challenges were with the transition, especially after Dad passed. Just continuing the relationships and building on the relationships with our banks, our investors. It was about making sure that they had faith in the organization."
>
> ▪ **CEO, FAMILY-OWNED FIRM**

Transferring these relationships may require a delicate balance of support and autonomy. Current leaders often want to continue sitting in the primary seat and making decisions; yet to ensure leadership continuity, they need to provide the support and opportunity for future leaders to confidently occupy that primary position, earning the trust of existing relationships and fostering new ones. The process often requires letting new leaders develop their own unique professional networks alongside the firm's existing relationships.

Resource Investment

While respondents felt succession planning was worth the investment, they also acknowledged that the commitment of time and money can present a resource challenge. For example, firms must often account for new expenses, such as hiring outside legal, business and financial advisory consultants.

In addition, given the hectic realities of running a CRE business, finding time to devote to succession planning can be burdensome for owners. Despite its high importance, it is not an immediate need for most, so daily operations often take precedence over training and developing successors. While it can be difficult to focus on events that feel far away, respondents cautioned against waiting too long to start planning.

> "I've been standing on the starting line for probably too long. [...] I'm 62 years old. I've been thinking about this for the last two years. Just because I know whatever I decide to do will take some time to implement. But I get busy with all the day-to-day stuff and all the things that you get consumed with, and this just sort of keeps being pushed to the side."
>
> ▪ **PRESIDENT, FAMILY-OWNED FIRM**

Rigidity

A few of those interviewed felt that leaders or succession plans can be too rigid. The unexpected is, by its very nature, difficult to predict. However, thinking through potential scenarios and having contingency plans in place can help mitigate risk.

> "If you have a concrete plan and you're not willing to be nimble enough to pivot, then that could be a problem."
>
> ▪ **PARTNER, FIRM WITH A PARTNERSHIP MODEL**

Uncomfortable Conversations

Succession planning can be difficult for leaders, as it may be putting their own mortality front and center. Approaching retirement age or thinking through the ramifications of an unexpected death is often uncomfortable. Relinquishing control can also be difficult. To further complicate matters, leaders may anticipate potential friction as part of the succession planning process, whether with family, other employees or external stakeholders. Differences of opinion may exist regarding who should be part of the succession plan that will guide the firm's future. Understandably, emotions can run high.

> "There's a frictional aspect of it. [...] Nobody likes talking about their own demise, right? Nobody wants to talk about their own death."
>
> ▪ **PRESIDENT, FAMILY-OWNED FIRM**

The Benefits

> "The positives so strongly outweigh the negatives that it's worth a little bit of the pain in the process."
>
> ▪ **PRESIDENT, FAMILY-OWNED FIRM**

While succession planning can be a long and involved process, respondents viewed the benefits as strongly outweighing any challenges. Several important benefits stood out in the interviews.

Stable and Attractive Employee Environment

First, succession planning enables a stable and attractive employee environment. Peace of mind for both leaders and employees comes with knowing that the future direction of the company and its leadership has been carefully thought through and resolved. Employees feel greater security and confidence when they know a plan is in place. Having and sharing the existence of a succession plan can also make it easier to attract and retain top talent.

> "It's very important for the people I hire to know that in five years or ten years they aren't going to be looking for another job. [...] It's part of setting a path forward that helps me attract top talent. It's for them to understand [that] we're trying to build a company, it's going to sustain itself, and there will be a place for you here."
>
> ▪ **PARTNER, FIRM WITH A PARTNERSHIP MODEL**

Business Continuity

Second, having a succession plan in place addresses the key challenge of ensuring business continuity, particularly in the event of leadership being interrupted by death, illness or disability. Indeed, without a predetermined plan, a business in such a situation may find itself in turmoil as leadership, financial stability and long-term viability become uncertain. In a worst-case scenario, failure to plan for a possible interruption in leadership can result in losing control of a firm's assets to investors and creditors. Additionally, implementing a gradual transition based on an established succession plan makes leadership changes easier by building and reinforcing key relationships over time.

> "There was a lot of relationship building. Thankfully, we had been working on that for years."
>
> ▪ **CEO, FAMILY-OWNED FIRM**

Continuity is also maintained in preserving the strategic direction and culture of the business. Succession plans allow for proper preparation and time to ensure the strategic direction of the company is set and will continue post-transition.

> "I have the opportunity to steer the ship now in the direction that I think is going to be best in the long run."
>
> ▪ **PARTNER, FAMILY-OWNED FIRM**

Family Harmony

Among family-owned firms, succession plans that openly communicate what is expected from the next generation and what the transition process will entail are more likely to maintain family harmony. Objective criteria provide clarity and alignment for all involved.

Best Practices: Planning for Successful Transitions

Succession planning requires careful attention to both the technical aspects (financial, legal, structural) and the human elements (trust, culture, relationships) of transitioning a CRE business to the next generation of leadership.

Succession planning is highly contextual—what works for one company may not be suitable for another, especially with differences in regulatory requirements, interpersonal or family dynamics, company size and complexity, leadership readiness and financial condition. However, several best practices are consistent across firms and can be leveraged regardless of the situation.

Be Proactive and Plan Early

Thoughtful execution, flexibility and patience are crucial elements of succession planning. It is important to consider what long-term goals look like and mean to exiting leaders. Owners have different plans, objectives, family dynamics and inherent goals. Failing to carefully think through who should take over leadership and neglecting to properly prepare them for the responsibility can have serious consequences. The challenge is particularly daunting for family-owned businesses.

Many of the respondents agreed that being proactive is instrumental to effective succession planning. By planning early, business owners avoid having to make hasty decisions in an emergency.

> "Don't wait till somebody dies or is really sick. Put it in place while everybody is healthy and the company is doing well."
>
> ▪ CEO, FIRM WITH A PARTNERSHIP MODEL

The earlier that planning takes place, the easier it is to transfer knowledge, trust and expertise to the next generation of leaders. It likely took decades for the current leadership to develop that knowledge, so the longer they have to engage their successors, the better. Gradually transferring knowledge to future successors while progressively increasing their level of responsibility provides a more robust foundation and offers more practical experience to leverage when they take over. This also allows successors to begin building relationships with key stakeholders, ideally years in advance of a transition.

Early in the process, it is important to identify how a plan will transfer ownership. Some of the most common options include internal transfers (such as when an owner sells ownership interest to a co-owner or key employees), via inheritance, or selling an owner's interest back to the company to be distributed to the remaining owners. There is also the external option of selling the business to a third party.

A firm can provide a mechanism for an owner to sell their interest back to the company, which can help structure succession planning in firms with multiple owners. This approach is common among professional services firms, though it can create corporate bureaucracy and political issues regarding the division of an exiting owner's interest and the reallocation of decision-making power going forward.

Selling to a third party usually means the buyer has established financial support and experience in acquiring businesses, which can provide stability. However, the third party may not be familiar with the existing team and culture, leading to potential disruptions. Moreover, a new third-party owner may require continuity from the current leadership team for some time and may insist on earnouts based on post-transaction profitability to offset these risks. Finding a third party willing to acquire a business at a price that the existing owners find acceptable can also prove difficult, especially when market conditions are unfavorable. This may force the current owners to postpone their planned exit from the firm.

Another benefit to planning early is the mitigation of potential future conflict among employees. Outlining requirements for future successors gives them time to fully understand and mindfully commit to the decision to invest in fulfilling those requirements. If potential successors are family members who are currently too young to become involved in the business, a plan should be in place for this process to begin once they are old enough to consider joining the firm.

> "If you think your kids are going to want to get into a family business [...] you should lay out the criteria when they're very young because if you do it when they're grown up, then it looks like it wasn't as objectively done."
>
> ▪ **CEO, FAMILY-OWNED FIRM**

Additionally, early planning can address any potential gaps that need to be filled. Potential interim solutions can be explored to address scenarios in which new leadership may need to take over because the intended successors are not yet ready to take full responsibility for the firm.

Planning early also supports many of the other best practices discussed later in this report, such as open, transparent communication with key stakeholders. If everyone is aware of the plan and understands the intentions and timeline well in advance, it can reassure all involved.

Ensure Strategic Alignment

By consciously defining their vision for the future and seeking alignment with their intended successors, current leaders can ensure a company's strategic objectives remain consistent and prevent potential disruptions.

> "Coming to a consensus on if we are trying to build a legacy here or if we are trying to build something to sell. I do want everybody to have the same vision."
>
> ▪ **CHIEF ADMINISTRATIVE OFFICER (CAO), FAMILY-OWNED FIRM**

Leaders who have invested a great deal of effort to develop the vision and direction of their company typically have a strong desire to make sure emerging leaders will continue that momentum. These conversations should start early in the planning process to ensure potential successors are in alignment regarding the intended direction of the company.

> "I think it's important that you start with 'what do I want' and, whoever I'm handing it to, 'what do they want?' Before we talk any logistics or taxes or legalese, we have to get aligned on values."
>
> ▪ **OWNER/SOLE PROPRIETOR**

Create Planning Teams and Leverage External Professional Support

Succession planning can be operationally complex for CRE firms, but there are third-party options that can support gradual transitions. Several respondents had leveraged outside consultants, attorneys, accountants and advisers to help facilitate their succession planning or were planning to do so. For example, one professional who has been through the process discussed the advantages of engaging an independent guide:

> "The benefit of a facilitator far outweighs their costs and in the long run would save families money. I don't know that mom and dad are always equipped to talk to adult children and grandchildren about their death and their wishes, what they want for their business, their legacy, and their philanthropy. A family business consultant can really help with that and do it in a way that everyone feels like there's real professionalism in the room."
>
> ▪ **PRESIDENT, PARTNERSHIP MODEL**

Some respondents also created councils to provide governance around the planning process. For instance, the president of a family-owned firm who did not yet have a succession plan in place had begun documenting the steps needed with an advisory board. They indicated that seeking external support was a critical step in their process:

> "I have a memo telling them to form an advisory board with (specific) people/advisers (internal upper management, attorneys, accountants and peers) to help the person thrust into the business. Give my heirs guidance to help nurture them along and make decisions."
>
> ▪ **PRESIDENT, FAMILY-OWNED FIRM**

Involving experts ensures that the required financial, legal and structural aspects of a succession plan are solid. Engaging external support also facilitates tough but necessary conversations and infuses them with increased structure and professionalism. This can mitigate some of the emotionality that may (understandably) arise, especially when family dynamics are involved.

> "The facilitator forced us to have a lot of heavy conversations that needed to be had."
>
> ▪ **PRESIDENT AND CEO, FIRM WITH MULTIPLE OWNERS**

Objective third parties can help establish ground rules for conversations and decision-making, facilitate discussions and develop clear protocols for handling disagreements.

Be Thoughtful About Financial Planning

Financial planning is a core aspect of successful transition planning. It ensures that the business maintains value, provides fair compensation for exiting owners and minimizes tax implications. There is no one-size-fits-all strategy to ensure a real estate firm has adequate liquidity and diversification to accomplish the objectives of a succession plan, but owners can turn to a common set of financial planning tools and best practices to avoid pitfalls. The most important step in the financial planning process is to assess a firm's current portfolio of assets and liabilities inclusive of any contingencies in play. This assessment can produce recommendations for making changes in a firm's portfolio to match its risk tolerance, improve diversification and provide access to liquidity so that it can meet immediate obligations during an interruption of leadership or a planned transition. The most prevalent mechanism to ensure liquidity is to obtain life insurance on a firm's owners that is sufficient to cover immediate obligations. These may include estate taxes, obligations under a buy-sell agreement and other potential outstanding liabilities.

The owners interviewed for this report took pride in the financial success of their companies and wanted to be able to pass on a sustainable legacy to the next group of leaders. Longevity in today's dynamic market is rare, and developing a strong succession plan can support a company's long-term financial health.

> "It's got to be financially sustainable. You have got to make sure that what you're doing is somewhat being institutionalized throughout the business and transcends you."
>
> ▪ **CEO, FAMILY-OWNED FIRM**

Getting an accurate, comprehensive valuation for a company, considering a variety of tax scenarios and efficiencies, and establishing clear buy-in mechanisms for successors and buyout mechanisms for existing owners, protects all parties' interests. These are crucial aspects of a succession plan.

> "The company actually owns the real estate that's in the company and you're dealing with succession planning on that level, then you bring in the owner's family and the owner's spouse and the owner's children because they're going to be inheriting some piece of whatever is happening in the operating company."
>
> ▪ **CEO, FIRM WITH A PARTNERSHIP MODEL**

Moreover, firm financial planning will often be inextricably entwined with owners' personal financial plans. For example, providing retirement income for an exiting owner will often be a central goal of implementing a succession plan. The owner's potential estate tax liability may factor into considerations such as how and when to transfer ownership interests in real assets and how to structure insurance policies. If exiting owners want to avoid a large taxable lump sum payment, they should begin the succession planning process years in advance of their intended exit so there is sufficient time to transfer assets or make buyout payments.

UNIQUE CONSIDERATIONS FOR CRE FIRMS

Real estate investments are inherently illiquid, so diversification and access to liquidity are pivotal for decision-making and tax planning. The legal structures for holding real estate can be complex, whether they are asset-specific joint ventures or common GP (General Partner—Sponsor)/LP (Limited Partner—Passive Equity) Fund structures for several projects. Ownership interests in these structures are unlike stock traded on a public exchange that can be purchased and sold within seconds and instead are subject to various constraints on what owners can do. These constraints are reflected in the discounted valuation of LP ownership units.

Another important consideration unique to real estate succession planning is the role of personal guarantees. Under the terms of construction loans, banks may require personal guarantees to avoid situations where development is stalled, leaving the bank with half-developed land and a building that is useless to it. Firms that have projects with personal guarantees like this need to factor in how they are addressed in a leadership transition.

Preserve Cultural Values

Preserving a business's cultural values can be a critical aspect of succession planning when ownership is being transferred. Leaders often want the values, work ethic and unique cultural attributes of their organization to be conveyed to the next generation. Even though some evolution is expected, it is important to make sure the character of the firm remains recognizable. For this reason, exiting owners need to communicate why cultural continuity will lead to success and take steps to ensure new leaders will be a good fit for the company.

Additionally, a few firms emphasized the significance of continuing their charitable work and commitment to the local community. Maintaining community connection, involvement and support was an important aspect of preserving their company culture.

> "The top priorities were to maintain the culture and the identity that the firm had or improve it, but not to go backward. To stay entrenched in the local community."
>
> ▪ PRESIDENT AND CEO, FIRM WITH MULTIPLE OWNERS

Cultural fit should be carefully considered when selecting successors, and prospective leaders should have a solid understanding of the company's cultural values. Gradual transitions over longer periods of time can help make this a reality by creating more opportunities for successors to be immersed in and deeply understand the cultural fabric of the company.

> "Culturally, I needed to find a successor, and then a successor behind that, that fits into that mold. [...] We've worked really hard in the last six years to build a culture here of empowerment. Surround yourself with really good people, and then let them go and do what they do best."
>
> ▪ PRESIDENT, FIRM WITH MULTIPLE OWNERS

Use Clear Communication

When managing business relationships, it is important to avoid shocking key stakeholders with an unexpected strategic move. Ensuring everyone knows the succession plan well in advance can help preserve business (and family) relationships.

> "I would be as open and as honest as early as you possibly can. I think the idea that Dad keeps this a secret until he dies and then everyone finds out is the worst possible model."
>
> ▪ PRESIDENT, FAMILY-OWNED FIRM

Transparency about the process and plans sets stakeholder expectations and provides a greater sense of security for the company's future. Communicating a thoughtful succession plan early and often signals to investors, partners and clients that the company is forward-thinking and stable. It is also important to share frequent updates about the plan's development and implementation to foster trust in the organization. A few study participants mentioned the importance of regularly scheduled meetings to address emerging issues and stakeholder questions and concerns.

Communication also needs to be clear to avoid unnecessary confusion, especially when it comes to succession plans designed to hand full or partial ownership of a business to a family member. The firm's vision, intended roles and responsibilities, requirements, transition plans, records of changes and timelines all need to be clearly communicated. Documentation should be as simple as possible while also being comprehensive and complete. Within families, this helps the next generation understand expectations if they choose to join or take over the business and the reasoning involved in transferring leadership to them.

> "I want to be able to define the succession plan with the hope that my daughters will say, 'Oh, there's a clear-cut reason for me to get into the business.'"
>
> ▪ PARTNER, FIRM WITH A PARTNERSHIP MODEL

Identify the Right Talent

Identifying the right talent to take over the leadership of a CRE business starts with having a clear definition of leadership roles and the criteria necessary to fill them. It is important to constantly look for those individuals who demonstrate an interest in leading and have the right qualifications to be future leaders.

> "We'll always need to be growing and always be building each other and lifting up our next generation of leaders, and if we all do that, everything will take care of itself."
>
> ▪ PRESIDENT AND CEO, FIRM WITH MULTIPLE OWNERS

Source: Wipfli

Observing employee behaviors and creating an open dialogue about their career aspirations can help identify potential leaders.

> "Through our performance review and feedback setup, we ask what is it you'd like to be doing that you're not doing now? And that's a great way to gauge who's hungry to do more and what their aspirations are."
>
> ■ **CAO, FAMILY-OWNED FIRM**

One respondent indicated their firm implements formal assessment tools to identify leadership potential and styles. Fostering leadership teams with diverse backgrounds and expertise can help ensure a strong pool of candidates who could become future successors. Then, once a potential successor is identified, giving them incremental responsibilities can provide insight into how they will perform with extra responsibility and challenges.

Identifying objective selection criteria can help ensure future successors are invested in the business by setting expectations for:

- External experience requirements.
- Internal experience requirements.
- Roles within the business in which a future successor should be involved.

While each objective is applicable when it comes to potential successors who are family members, ensuring their vested interest in the business is particularly important.

> "[Family members] have a vested interest in what's happening in the company. Both owners were very, very cognizant of making sure they brought at least one or two of their beneficiaries in as employees of the company so that when they're asked to step up to be owners, they understand what it is they're inheriting."
>
> ■ **CFO, FIRM WITH MULTIPLE OWNERS**

Being realistic about age and capabilities is key when considering family successors. Owners should keep an open mind and consider experienced employees or external talent who can bridge the gap until younger family members are primed to take over or who can round out the strengths of the team.

Prepare Future Leaders with Leadership Training and Development

Transferring knowledge gained over decades does not and cannot happen overnight. The more time current leaders can spend training future leaders, the better. As previously mentioned, gradually increasing responsibilities helps ensure potential successors are indeed capable of taking over while also giving them the best chance for success by taking incremental steps toward their future role. Some respondents indicated that transitional leadership periods, where current and future leaders co-led the firm, provided successors with greater insight into the duties they could expect to take over after the transition. It also provided them with a unique window into how current leadership addressed different challenges and opportunities.

> "If it's a non-family member taking over, pay the previous CEO to stay on and nurture the new CEO longer than a year or two. Succession planning is not what most people think. A successful route is a long route."
>
> ■ **CEO, FAMILY-OWNED FIRM**

Gradual integration is also a good strategy for family-owned businesses. It is helpful to provide potential successors with early education about the business, and current leaders have more time to consider what external work experience they may require prior to a transition. About half of the family-owned businesses mentioned the importance of external work and educational experiences to build successors' translatable knowledge and demonstrate their professional competence.

> "We've done a lot to get education to legitimize ourselves outside of the business, so people feel comfortable. We try not to just be seen as owners' kids, but we've obtained additional education. We're committed to being here and to being leaders. People know that we try to have really smart people around us because we have some non-family executives that fill in [where] we're not so strong."
>
> ▪ **CAO, FAMILY-OWNED FIRM**

Others have implemented structured training programs or commissioned leadership coaches to help develop successors' skills.

Stay Flexible and Reassess Frequently

As critical as it is to start succession planning early, it is equally important to reassess frequently. People and businesses change over time. The best decision for a business five years ago may look completely different for the business today.

A willingness to reassess a succession plan at least annually provides flexibility and allows a team to get comfortable addressing changing needs and situations as they arise. The formal plan is important, but the process needs to be adaptable while maintaining clear objectives and communication throughout.

> "You have to make halftime adjustments. You come up with a game plan, right? So, you've really got to look at life nowadays. [It's not like it was] in the old days 'Oh, you've got to do a ten-year plan, and a five-year plan, and a three-year.' The world's changing way too quickly now. So, I call it a rolling three-year plan. You always have to look three years out, but it's continuously looking three years out. [...] The plan, to some extent, has to be an evolution."
>
> ▪ **CEO, FAMILY-OWNED FIRM**

As part of the process, firms should plan for different types of unexpected scenarios. This could mean considering multiple succession options. By thinking through the myriad personal, financial, market and operational changes that have occurred, or that might occur in the future, contingency plans can be developed to mitigate risks to the company. Planning for a variety of scenarios can ensure the company transcends any individual leader.

Conclusion

The CRE landscape is evolving rapidly, and the importance of thoughtful, strategic succession planning has never been more apparent. Succession planning is far more than a procedural necessity; it is a dynamic, ongoing process that intersects with business strategy, human relationships and long-term organizational vision.

What is abundantly clear from the findings is that succession is not about a single moment of transition. It is about creating a continuous dialogue and adaptive framework that can guide an organization through inevitable changes and challenges. Firms that seek resilience over time are those that view succession not as a problem to be managed but rather as an opportunity to intentionally shape their future.

This report demonstrates that, at its core, succession planning in CRE is fundamentally about people—their aspirations, capabilities and collective commitment to an organization's continued success. The firms that feel their succession plans have been successful recognize that knowledge transfer is not merely about technical skills but also about cultivating a shared understanding of values, culture and strategic vision. By investing in gradual, transparent preparation, organizations can ensure that leadership transitions become moments of renewal and stability rather than disruption.

Furthermore, this report details that succession planning transcends legal and financial considerations. It is a comprehensive strategy that touches every aspect of an organization, from talent development and relationship management to cultural preservation and strategic alignment. The most forward-thinking CRE firms begin this process as early as possible, communicate transparently and view succession as a continuous, evolving journey.

The most effective succession plans are built to evolve with the journey. They maintain a delicate balance between formal structure and adaptive flexibility. During times of unprecedented market volatility, rigid plans are as dangerous as having no plans at all.

As the CRE sector continues to transform, driven by technological innovation, changing workforce dynamics and global economic shifts, succession planning will only grow in strategic importance. The firms that view this process not as a compliance exercise but as a critical step for growth and reinvention will be the ones that define the future of the industry.

Balancing Family and Business Interests

- *"We are trying to best serve the family in what we do from a business perspective as opposed to being a business-first organization, where maybe you would make decisions on what is best for the business even if it's to the detriment of the family."*
- *"I think the challenge is that there's six of us, so it's a lot of people to try and get consensus."*

Best Practice: Be Proactive and Plan Early

- "*We're a family-owned business and intend to keep the business ownership within the family, and we feel like planning prior to any sort of event is the best way to deal with that."*
- *"Get all affected parties around the table and agreeing to the plan sooner [rather] than later."*
- *"How long should you work outside of the company before you come into the company and all those questions, we should probably define before we're up against them, right? Where all the sudden it creates conflict."*
- *"We have to start educating our next generation about what the company needs, what they could potentially inherit [...] so that as they go toward college, if they are interested, they whet their appetite."*
- *"If you know there's been an accident or something that causes kind of a need for succession planning, you're too late and there's really a benefit in doing it sort of ahead of time and thoughtfully."*
- *"You want to make those policies obviously when they're five, not when they're 25 and asking to work at the family business. [...] Making plans and policies before you need them because at the time you need them, you're not going to be thinking clearly. You're going to be thinking more emotionally."*
- *"It's probably about a five-to-six-year process [...] to get completed."*
- *"Anytime you're talking about succession planning, people inherently think that's so far down the road. But how do you get focus and attention on it sooner?"*

Best Practice: Ensure Strategic Alignment

- *"We try to be like-minded on all decisions, like-minded on succession, like-minded about the future."*
- *"I really want to figure out how to give them something that holds the family together and that they can also pass on to their kids."*
- *"Being really clear about keeping your eye on the ball and what are we trying to do? What is the 50-year plan, right? What are we trying to accomplish? I think the more that you can focus on the bigger long-term piece the better."*
- *"It's just fascinating to me how much time and effort needs to be spent to align the belief systems and goals of those going and those coming in. [...] People never really start there, and they never really solve that. They are always focused on numbers, taxes and legal stuff."*

Best Practice: Create Planning Teams and Leverage External Professional Support

- *"They [external consultant] really helped us set up a family council [and] governance and talk through the things we should be considering with succession. So, with that came just open and transparent communication from my grandfather about what was going to happen with his shares when he passed away."*
- *"The consultant was really helpful. Just somebody that can handle hard conversations, and [a] neutral third party really was helpful."*
- *"We came up with like ground rules for every meeting that we had, and if you disagree with something, here's how we come to consensus."*

Best Practice: Be Thoughtful About Financial Planning

- *"We have to build the company's balance sheet to the point you don't need my net worth."*
- *"Here's the next four years' plan for how he's going to sell down his shares. [...] Here's how it'll be calculated. Here's the valuations."*
- *"Trying to get five people to agree to how long are you going to work, how much risk are you going to take, how much money are we going to retain all the time, and how do I buy out or buy in. There were lots of questions."*
- *"In the valuation process, it's more unique than buying a manufacturing company. It's more like a consulting company or a law firm."*
- *"We had two different cost evaluations for the price of the company and what it might bring that were not overly complex, but one through a business broker and one through a coach that specializes in [our industry]."*
- *"There are not many real estate companies in [our area] that are not REITs or publicly traded or anything that has been around for over 40 years. Most of our competitors have been bought, merged, quit or gone home."*

Best Practice: Preserve Cultural Values

- *"I think the top priorities for the owners were to keep the business locally or state owned. To maintain the culture and the identity that the firm had or improve it, but not to go backward."*
- *"You're always looking. Like everybody tells you, you're always looking to train your successor, right? You're always looking to train your successor, and I fortunately had hired in that period of time two very good potential successors who are like-minded, same values."*
- *"We really want to focus on people who share similar values with us."*

Best Practice: Use Clear Communication

- *"We meet quarterly—me, my son and my chief operating officer, who's been with me for a very long time. So, he helps really keep it going and [with] implementing it."*
- *"We go off-site four times a year and we have a Monday morning meeting, and that's me, the COO and the two guys that run the brokerage side."*
- *"Clarity for a management team, clarity for owners, clarity for spouses of owners. I think giving everybody really good information to plan off of allows them to make better decisions in their own lives."*
- *"Most of the frustrations are born out of lack of communication."*

Best Practice: Identify the Right Talent

- *"Put a lot of focus on trying to make sure that we're identifying people that can replace ourselves and, you know, making sure that we have good bench strength in the company."*
- *"I think if I'm honest with myself [...] we've used up our resources of how big we can get with our own internal resources as a family. We have to kind of take advantage of outside people that can critically look at what we're successful at."*
- *"We had a leadership coach that we worked with for about a year and he did all kinds of assessments, and some of that stuff helps. But, also, it's the people that are constantly raising their hand to bring solutions and saying, 'I can help out' and that will take on things that are outside of their lane. They just naturally rise to the top for us, and for a company our size [200+ employees], it's easy to identify who wants to do more and who doesn't."*

Best Practice: Prepare Future Leaders with Leadership and Training Development

- *"We try to keep it as seamless as possible, so it didn't seem like a transition was even happening, and that's why it took as long as it did."*
- *"The way we look at it [...] try to identify your young leaders and then try to put them in places and give them opportunities to different organizations or leadership training and get them in positions [...] to really be able to step up."*
- *"We have identified some upper management individuals to run the construction part of the business, and we are starting to nurture them for that role."*

Best Practice: Stay Flexible and Reassess Frequently

- *"I think the biggest thing is obviously life changes. When you write out a plan, things don't always occur in a way that allows that plan to be implemented or executed as you initially expected it would. But then figure out what the alternative is to still keep the progress moving forward."*
- *"You can plan, plan, plan all you want, but [...] like D-day, what they found out was 80% of what they planned was wrong. So, you have to adjust."*
- *"Certainly, as people emerge as leaders, we're going to look at this every year."*
- *"There are certain things that could be outside of our control. I think you have to be prepared and scenario plan for those things as well."*

Endnotes

1 United States Census Bureau, "65 and Older Population Grows Rapidly as Baby Boomers Age," news release, June 25, 2020, https://www.census.gov/newsroom/press-releases/2020/65-older-population-grows.html.

2 SHL, "The Power of Context: The Revolutionary Science Behind Succession Planning," 2021, shl-the-revolutionary-science-of-succession-planning-whitepaper-en.pdf.

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4 Deloitte, "Family Enterprise Survey: Uncovering Generational Perspectives," 2024, https://www2.deloitte.com/content/dam/Deloitte/us/Documents/us-2024-family-enterprise-survey.pdf.

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