

CAPITAL PARTNERS: A NETWORK ORGANIZATION¹

Michael Mach, founder and CEO of Capital Partners, reflected on the company's organizational design—a network model—and the current prosperous economic environment for commercial real estate development.

Capital Partners' organizational type has been easy to handle because business has gone well. People have been busy and have reasons to feel good about what they are doing. You really only have problems when things don't go well. When people are busy and have a reason to feel good about what they're doing, and they feel good about themselves, there is a minimum of looking on each other's plate. There is a minimum of worrying about whether other people are keeping up their end of the deal. But [if] you get into a stress period where you are not making progress, then I think you have the flip-side of that.

As long as we can keep the junior partners and leasing agents busy and challenged, I think they will be pretty content. The real question comes when there is a slow down, like some of the national real estate companies that we are all familiar with, and the junior partners have a tough time seeing a good future. Then you [can] have a lot of fallout and a lot of dissention.

THE COMPANY

Capital Partners, a commercial real estate development firm, was founded by Michael Mach and a small number of partners in 1987, immediately following their separation from a national real estate firm ("National"). In the late 1970s National's business changed dramatically due to rapid growth in its markets, a trend the company followed by rapidly diversifying and expanding. By the mid 1980s, National began to experience organizational fatigue and breakdown, which was exacerbated by unfavorable economic conditions in once-attractive markets. A number of key partners left amidst a "war of opinions" about the real estate business and National's strategy. These partners set off to recreate the operating philosophy and structure under which they made their careers and had been so successful at National.

¹This case was prepared by Pablo S. Beloff under the supervision of Professor Wayne E. Baker as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. It was revised by Professor Baker in September 2000. Copyright (c) 2000 by Wayne E. Baker. All rights reserved. (The firm's name, location, and other identifying information have been disguised at the company's request.)

Each of the main partners at Capital Partners has worked with Michael for over 15 years (see Exhibit 1). Most other employees at Capital have also worked previously with Michael. They moved to Capital Partners because of their loyalty, personal allegiances, and professional relations to Michael and other partners who accompanied him. George Dupper, a partner who made the switch, explained, "I did not have much contact with the main operation and my personal allegiances were with Michael. The decision was a no-brainer." Capital's controller, Audrey Robinson, agreed. "It was not even a conscious decision to make." Those who switched from National to Capital came along in two waves, first when Michael himself departed, and approximately three months later once the other others felt confident that Michael's company would be successful on its own.

Capital Partners operates in two main businesses: managing the properties they already own and creating new products for future management. Capital Partners' primary role is to purchase land and build commercial real estate for leasing purposes in the suburban areas of the greater Washington, D.C. area. The projects Capital Partners develops are either build to suit (build on contract to a client's needs and tastes) or speculative properties with the intention of creating value via development, construction, and management. Capital Partners is not involved in the transfer of ownership of developed properties, such as acquisition or sale of developed pieces of land. Today the company has a quarter of a billion dollars of real estate development business. The firm employs 81 people throughout its offices. The firm's headquarters is located in Fairfax County, Virginia, with satellite offices in Montgomery and Prince Georges Counties in Maryland. (See Exhibit 2 for a map of Greater Washington, D.C. real estate market.)

MICHAEL MACH

Michael Mach, born and raised in the Midwest, became interested in real estate while in the Navy, stationed at Santa Clara, California. During that time he took real estate courses and became familiar with possibilities in the field. Upon honorable discharge from the Navy in 1964, Michael anticipated working for a commercial real estate firm in San Francisco, but for family reasons, decided to join National & Co, an emerging force in real estate.

Michael was originally hired as an administrative assistant and pilot. Some of his other jobs included managing and leasing an 8-story office building and an old industrial park. After a few years Michael was asked to move to Washington, D.C. to open an office for the company. He moved to D.C. and became a partner in the new venture. In 1976 he was made a member of the management board (National's Board of Directors) and subsequently opened offices throughout the region. He was a member of the management board and a Regional Partner until his departure in 1987. Immediately upon his departure, he founded Capital Partners together with some of his local partners.

Michael Mach is viewed as the firm's leader. He is described as employee-centered, always considering the needs and preferences of those who work for him. James Stempel (leasing agent) commented that "Michael's personality alone is the culture of the company." Michael sets the "tone" for the firm. As Robert Faust (partner) said, "If Michael does not have one [a fancy car], why should we the employees have one?" Michael's desk is out in the open

for all to see. The only sign of seniority is the fact that his desk is located in a corner with a nice view.

Clients often ask that Michael be brought into negotiations as a prerequisite for moving forward with a deal. “Michael’s presence helps to show a prospective tenant that the firm is committed to the project,” stated George Dupper (partner). Capital Partners’ financial success and credit lines are directly related to Michael’s presence. As Roger Carter, partner in charge of the office division, said, “Michael has the financial strength. He is the one the banks look at.”

Michael’s working habits at Capital Partners are the same as when he started in the real estate industry 25 years ago. He puts in long hours at the office and enjoys what he does. His main responsibilities include overall management and direction of the firm. Michael is a key connection between Capital Partners and the outside world. He is actively involved in state-wide politics. He is also an eloquent key note speaker. Michael summarized his view of his many activities:

I involve myself in a number of things. Most of them are directly or indirectly related to our business. In life, one reaches the point where one does not deliberately go out and search for things that help one’s real estate business. But like so many business things, the large factor is the networking that we all do if you take on one of these other challenges. It is real hard to separate the two things. I also take on civic challenges in order to get some form of extra edge in our business, since they are interrelated in some way. I can justify mixing both activities without feeling like I am taking away from what I should be doing at the office.

Of all responsibilities, administration is the only aspect of business that Michael dislikes. As he once said, “I’m certainly not complicating my life by becoming an administrator.”

OPERATING PHILOSOPHY

The philosophy at Capital Partners is a recreation of National before its rapid expansion. National once was an organization that emphasized controlled growth, lean staffing, and a focused perspective. As Roger Carter commented,

We [at Capital Partners] tell everyone, publicly, that we are trying to form the old National. We are trying to recapture that spirit and old way of doing business. We would have football games in the old days. We had a league, we really got pumped up for it and people were serious about it. But when we got big at National, the games went by the wayside. There were so many people you had name tags.

National’s original philosophy was directly attributable to the founder’s personal style and preferences. As Michael described it,

He was one of the best natural leaders and motivators that I have ever known. He very consciously determined that he wanted to operate through a partnership format as opposed to a corporate hierarchy. He made this fundamental for a couple of reasons. One, it was not his own personal, natural style to fit well in a corporate hierarchy, even at the top. And two, he felt that if he worked through a corporate format he would have to set up policing mechanisms in each area of operations outside his own office. He thought this would reduce efficiency and effectiveness of his organization. The preferred alternative was to set up an organization where the field partners would have the same motivations and concerns that he had. This resulted in a very horizontal type business organization.

[The founder of National] liked to operate as the 'hub of the wheel' in the early days, with all of his key business associates pretty much having direct access to him. In later years, this fundamental approach to business broke down into cells where his primary contacts were with Management Board members and Regional Partners, although he certainly had contact with other partners. Then the various Regional Operating Partners became the hubs of their own wheels, the spokes of which became the division partners in that particular region, who in turn had their own operating cells.

Michael Mach attributes the changes at National to a loss of control by senior management, a problem directly related to a lack of discipline in expanding the business. One reason Michael departed was his dissatisfaction with National's strategic direction. He said, "Growth is a matter of whether one can maintain discipline, where significant problems can be created if [it is] not properly dealt with.... It has been a miracle that National has been working and functioning as long as it has.

As a result of his experiences at National, Michael emphasizes a lean organization with limited growth. Roger Carter felt that management control was a key reason for a lean organization: "Every time you add an office it makes it more difficult. Every time you add a person, it makes life more difficult. Every time we add someone we are closer to being out of control. Being lean depends on the leadership of an organization with regards to how far you want to stretch control mechanisms."

Given his philosophy, Michael's strategy for Capital Partners is based on four operating principles, which he summarized as follows:

1. Operating the business in the markets we know and are located in.
2. Developing products that the firm is familiar with.
3. Operating the business with proven staff that has worked together extensively in the past.

4. Working with suppliers (contractors, architects, and banks) with whom we have close relationships and a history of doing business.

These principles represent Capital's constancy of purpose and strategic orientation. Michael stressed that "Expanding out of this mode is [something] that we do not think is in our best interest." Roger Carter concurred, adding "I just read about a fast-growing venture capital firm—they're having troubles. Maybe it's part of a trend toward boutique businesses. Everyone is trying for a specialty niche. You have to stick to the knitting, to what you do best."

Capital Partners' organization is designed to be informal, flexible, and dynamic. There are few written policies or objectives. Members interact and communicate often and freely. Michael prizes natural leadership, knowledge, individual talents, enthusiasm, and dedication to the real estate business. He refers to this organizational design as a "Lattice Organization."² Michael was not the originator or inventor of the lattice (or network) organizational model. But this was blueprint he had in mind, and it was the organizational model that closely resembled the old National. Once Michael Mach learned of the term "lattice," he used it as a guiding principle and often referred to it as a means of communicating the design and philosophy of Capital Partners.

As a lattice or network organization, Capital Partners is a group of individuals completely interwoven, based on relatively the same organizational plane and tied together with a common commitment to each other and the firm. Michael believes this model is a good fit with their environment. The flexible structure adapts well to frequent changes in local market trends, geographic preferences, and macroeconomic conditions. Roger Carter and John Rogers (partner) also feel that Capital's organizational design fits a real estate environment that demands flexibility and quick response.

An "open office" layout is used at Capital Partners. There are no private offices or even barriers separating support staff from leasing agents and partners (see Exhibit 3). One can easily see everyone else on the entire floor. The offices are well-appointed, complete with plush carpeting, dark stained walls, colonial-style furniture, and Midwestern motif artwork throughout. The space exudes a feeling of relaxed, friendly, and personal working conditions.

The office layout promotes easy, quick, and frequent communication and interaction at all levels. As Denise Conway (leasing agent) commented, "You are always overhearing conversations, you cannot help it, and you are brought into the deal." When one person needs to talk with another, it is done immediately. It is common to wave to someone on the office floor to get their attention, or just to walk up to the person's desk and converse informally. Memos and letters are rarely exchanged in-house when a conversation or informal meeting could accomplish the same thing. Communication is done in the most expeditious manner, without regard to formality.

²W. L. Gore & Associates, *The Lattice--A Philosophy of Enterprise*, Evanston, Ill. Gore defines the Lattice Organization as one that involves (1) no fixed or assigned authority; (2) direct person-to-person communication; (3) natural leadership defined by skills and experiences; (4) journeyman-apprentice environment; (5) group-imposed discipline; and (6) constant interaction with other members of the organization.

The philosophy of Capital Partners is also evident in the careful attention given to recruitment. The interviewing process is lengthy, and may take place over several months. From the moment the process starts, the individual is exposed to the organization and culture of the firm. Each prospect is closely scrutinized, usually by all senior partners. As Denise Conway recalled, "In the interview process, I talked to every partner [and] half the leasing agents." She also attended parties, other social events, and went with the partners on a ski trip to their lodge. The extended process gave her a sense of personalities and culture. She liked the loyalty and strong sense of confidence in the group. "I knew I wanted to work with Roger Carter and Michael."

James Stempel (leasing agent) also interviewed with the senior partners. He noted, however, that "One problem that occurred when they hired me is that I spent about 6-8 hours being interviewed by Michael, Edgar Booker, and Roger Carter, but only talked to Robert Faust (partner) and John Rogers for a total of about 10 minutes, even though they are the guys I ended up working for. It did not make much sense."

Even support staff must interview with a partner. Accountants, for example, are interviewed first by Audrey Robinson, the firm's controller. After passing the first round, the candidate is interviewed by one of the main partners. As Audrey stated, "The purpose for the interview with the main partner is primarily to get a feel for the person, to see if they have a compatible demeanor." Support staff, however, are not subjected to the same lengthy process as leasing agents. Sometimes employment agencies are used.

Finally, the philosophy of Capital Partners is evident in the amount of socializing that takes place, particularly among partners and leasing agents. Organized social activities include ski trips, softball, and volleyball. The partners get together informally on a regular basis. Many live in the same neighborhood and their spouses are friendly.

FORMAL ORGANIZATIONAL DESIGN

Capital Partners is formally organized along three dimensions: (1) horizontally into market groups, (2) spatially into geographic groups, and (3) vertically into formal positions.

1. Market Groups

Capital Partners is divided into three real estate groups or "divisions": industrial, retail, and office. Roger Carter is the partner in charge of the office group. He works with six junior partners and three leasing agents. Edgar Booker is the partner in charge of the industrial group. Three junior partners and one leasing agent work with him. Philip Sadler is the partner in charge of the retail group. This is the firm's smallest group with one junior partner and one leasing agent. (See Exhibit 1 for staffing levels for each market group.)

The industrial group specializes in real estate development of warehouses and production facilities. The retail group primarily develops retail strips and neighborhood centers. The office group provides clients with buildings to house district, regional, and corporate headquarters facilities in the Washington, D.C. suburbs.

Each group specializes in a particular market niche and targets particular areas in the suburbs. Each group has its own work style and values that reflect the personality and habits of the partner in charge. As one leasing agent put it, “You tend to think like the partner you work with, [you] respect his values, and life style.”

Capital Partners has developed about 2.5 million square feet of office space, with 1.3 million square feet in the pipeline. They have 12-14 million square feet of land zoned for office development. Capital has about 8.5 million square feet of industrial developments in place, with about two million square feet in the pipeline. Current land inventories include about 18 million square feet of industrial space. All told, the firm has land inventory sufficient for the next seven to eight years.

2. Geographic Groups

Capital Partners is headquartered in Fairfax County, with satellite offices in Montgomery and Prince Georges counties in Maryland (see Exhibit 2). Each market group is strategically positioned in specific geographic locations. This approach enables the firm to observe market trends closely and translate them into future development projects.

The industrial group is located at the headquarters office in Fairfax County. The retail group is also located in the Fairfax office. The office group is the largest division of Capital Partners with its main office located at headquarters, and satellite offices in Montgomery County and in Prince Georges County.

Interaction between the satellite offices and headquarters is minimal; interaction that does take place occurs between the partners in charge. Edgar Booker stated, “The industrial and office groups are almost like two different companies. We do not do any business or people sharing, except for accounting, and sharing Michael.” Mike Aoki (partner) said, “My daily contact with other people in the firm is limited, much like the other deal makers in the firm, to just getting things done.” Even when employees go to the Fairfax office to see architects and contractors housed in the same building, they often lack time to visit with headquarters. As John Rogers recalled,

Robert Faust and I went to the health club at lunch today to work out. When we were walking back, I said to Robert, ‘Jeez, I haven’t been to Fairfax in a while.’ I went there to work with our civil engineer - they are in the building - but I didn’t even have the time to stop in and say hello. I was late for a meeting. Michael is really concerned about it.

The youngest tier of partners and leasing agents make the effort to get together. This fall we are having an overnight retreat. We will get the partners and leasing agents together. We will meet for half the time [for business], and then we will just have fun.

Robert Faust mentioned that “The leasing agents in Montgomery do not get much day to day contact with partners or others from other offices.” He felt that distance between offices was

a problem. Robert also missed the camaraderie at Fairfax. Edgar Booker commented, "Satellite offices have to work very hard to develop a good atmosphere, like this office has." Several support staff also perceived a problem. As an engineer stated, "There is a need to have all new employees trained and supervised at the Fairfax office, for a minimum of six months, then dispatch them to their assignments. This way they will get a better understanding of the team concept."

Though formal meetings are very rare, there is a once-a-month leasing agent meeting where projects and market perspectives are discussed. Organized social events are a means to bring people together, but as James Stempel noted. "At open houses with clients present, Michael and other partners are so preoccupied with clients that you rarely get a chance to talk to them." The need for more social outings and work-related meetings is openly discussed by the senior partners.

3. Formal Positions

Titles at Capital Partners do not depict the usual image of a corporate bureaucracy. The company has a limited or flat hierarchy of partners, leasing agents, and support staff. As Denise Conway put it, "Partners, leasing agents, and nothing in between."

Partners. Roger Carter divided the partner group into three categories: "Michael would have to be our senior partner, he has the financial strength. Then the division partners are in charge of each of the three offices. Then we have the junior partners that receive guidance from the senior partners. But generally, we think of everyone as just partners."

Partners are the primary creative and driving forces behind Capital Partners; they are considered to be the major deal makers and relationship managers. Each is usually responsible for one or more projects. Tasks involve developing plans for acquiring land for a project, or, if the land is already available, developing a master plan for the site. Partners interact extensively with architects and contractors. They secure financing for projects through commercial banks, institutional investors, or insurance companies. Once financing is arranged, they coordinate the general contractor, architect, and others inside and outside the firm.

In conjunction with leasing agents, partners lease space from the very beginning stages of the project. Michael Mach noted that "Leasing is the motor that runs the development business." When tenants are in place, the partners set up the property management team to perform the day-to-day services needed to maintain the property. In all tasks, the partners delegate some activities to leasing agents, though the leasing agents' primary function is to lease space.

Partner compensation is based on salary and equity partnerships. Partners receive a base salary of \$25,000 per year. (Junior partners can draw against their partnership interests.) All partners are "participating partners" where they all participate in the ownership of one or more projects. Each division inside Capital has its own breakdown of equity partnerships. The senior partners determine ownership ratios as well as eligibility.

Most senior partners feel that their responsibilities include on-the-job training. As Edgar Booker (partner) summarized, "My job is to train and work with my juniors. It is to work myself out of a job." John Rogers agreed, stating, "We have no formal training program other than what

I call our 'tandem approach.' We work together, and then I can sit back and observe their approach. People work together, there's a sharing of information. After a few times working together, you can let him go. I might nudge people more than others along that process. I try to spend time together, so they can learn by observation, and be involved in meetings and discussions."

Despite these intentions, however, some feel that training is inadequate. For example, James Stempel stated, "Training is weak here. Well, I guess there is no training." One partner noted that he expects new employees to have been trained "elsewhere" and be ready to contribute as soon as they come on board.

At the end of every year, all partners get together at their ski lodge for the annual partners' meeting. The partners discuss yearly results and their business and economic predictions for the coming year. Making predictions is part of a yearly exercise where each partner estimates a series of economic factors (prime rate, 10-year money, inflation, etc.). The following year they find out who came closest to that previous year. The exercise is not used to measure the partners or business performance, but as a way to guide the firm and compel partners to think about important business factors. At National, the main partners would get together and perform a similar informal exercise.

Leasing Agents. Leasing agents are typically recent MBA graduates from top business schools who come with previous work experience (see Exhibit 1). Capital Partners did not formally recruit at business schools, relying instead on its reputation to attract top talent. Each leasing agent reports to the partner whose project he or she works on. Each is considered to be a "deal maker." Though the main function of a leasing agent is to lease buildings, they are involved in all aspects of a project, such as initiating new projects, planning, construction, lease-up, and property management. They are given complete responsibility for the projects they work on, bringing in the partners whenever they feel it is necessary due to the magnitude or scope of a decision. Denise Conway noted that "Leasing agents have complete responsibility for projects. I will have these decisions to make as a partner. I am involved soup-to-nuts on the projects I am working on."

At Capital, compensation is based on the revenues generated for the firm. Thus, leasing agents receive a minimal salary of \$25,000 per year, with most of their compensation coming from commissions earned by leasing. Denise Conway noted that, "What we are working for is equity ownership in a building. It makes you more responsible for the building as well as for your own reward."

Leasing agents start working in marketing (leasing) immediately, and over time are brought in to help with financing and planning. As one leasing agent put it, "I work with the architects to design the interiors and manage construction. We use one or two firms, but on a big job, we put it out for bid. When you are being groomed for development, you get involved in zoning. You do not usually get involved in financing. The goal is to become familiar with all the development components."

Leasing agents are viewed as aspiring partners with no fixed limits on how much responsibility they can assume on a given project. In this respect, they become very much like

partners as they progress. The criteria for becoming a partner, in addition to sufficient leasing experience, include a good working knowledge of financing, development, contracting, architecture, and property management.

Capital Partners lacks a formal performance appraisal process for leasing agents. Further, there are no formal requirements for promotion from leasing agent to partner. Roger Carter relies on “intuition” and looks for “success in marketing, knowledge of construction, an interest in finance, and good judgement on architectural issues.” James Stempel said, “There is no right or wrong way to get to become a partner.” As Michael summarized, “Leasing agents are promoted to partner when they prove to the senior partners that they have a good working familiarity with all facets of the development process. Other attributes deemed appropriate for a partner are capacity for hard work, honesty, a good sense of human relations, and reasonable intelligence are taken into consideration.”

Support Staff. Support staff includes accountants, secretaries, property managers, engineering-related staff, and maintenance personnel. Secretaries are considered an important part of the team, often acting more like administrative assistants. Property managers are responsible for operating and maintaining properties after they have been developed and built. They maintain the functionality, cleanliness, and well-being of the buildings. The accounting group is responsible for bookkeeping, taxes, various administrative items, cash requirements, and occasional legal counseling. The more senior accountants are involved in structuring transactions for tax advantages.

Support staff are paid market salaries, although there is a provision for more senior staff to participate in an employee-owned partnership. Lately, some support staff have criticized the performance appraisal process, which they feel is too informal and favors leasing agents in the allocation of bonuses. Some engineers are unhappy with their compensation package, which they view as low and lacking opportunities for overtime or “comp” time. Other support staff would like to see improvements in the overall benefit package available to employees, including the institution of a long term disability plan for all employees.

Michael Mach described the day-to-day work and typical progression of support staff at Capital Partners:

Progress inside Capital Partners depends on the support staff function. Those involved in administrative activities simply get better and more proficient at what they do. As an example, Helen Somers in our industrial division may be the most important and most knowledgeable person in that division. She would not be able to negotiate leases as effectively as Edgar Booker, but she certainly is more knowledgeable about the documents and how they are processed than Edgar is. Together they make a great team and are mutually dependent on one another. Within accounting, individuals can progress to more responsible positions as their experience and performance permit. Receptionists very often move up to property management. Normally, a new person comes aboard at a junior level and progresses to more responsible positions within the firm. Seldom are senior people hired from outside.

Fortunately the work load has grown as fast as our people, so that there is nearly always a challenge for all of the staff. All of the personnel here have important functions to perform and I believe they know it. Degree requirements are not too important, except for filling certain accounting functions.

But Sara Berger, an assistant property manager, holds a different view on the subject of college degrees:

I would like to change the fact that a degree is needed to be promoted further into property management. I agree completely that a degree is extremely important, but let us keep it in perspective. People in this company have been promoted to property managers and do not have a degree in business or management, but they do in English, Teaching, and Art. If this is the case, then it really does not matter what degree I personally obtain just as long as I have the piece of paper.

The accounting group has suffered from high turnover and frequent criticism by leasing agents and partners. Audrey Robinson, who has extensive contact with Michael and the partners, feels that Michael recognizes the importance of a quality source of information and is committed to integrating the accounting staff into the firm's operation. However, Ramon Montes (accountant) said, "The accounting group needs more communication from partners with regards to personnel matters, significant events or transactions, and direction." Elizabeth Owen, an administrative assistant, felt similarly: "At Capital Partners we need better communication with partners. The company has grown and we have lost the communication that we had when we were a smaller group. The company is set in its ways. It's not open for change to a more structured office environment. The firm lacks in handling personal problems. The company partners do not want to get involved in this area."

Partners and leasing agents have mixed feelings about the accounting group. One partner said, "The type of person who likes accounting is different than us. There is a different personality involved, different interest levels. I do not go to accounting and ask one of them to go to lunch." Another said, "it is hard to make accounting fit in, to blend in." A leasing agent commented, "Partners and leasing agents do not spend time communicating with the accounting group...we do not communicate well with them." Many believe that accountants cannot become leasing agents because they lack the MBA and do not have the "right personality" to be deal makers.

THE FUTURE

Capital Partners has experienced great success so far. Michael and his partners are considering strategic options for ensuring success in the future. Michael summarized his view:

If the trend in the real estate industry continues, we will simply do more projects and develop a larger portfolio, continuing to develop when it is feasible, and if it is not feasible, we will cut back. We will add people as we need them and if we follow the pattern of the last two years, where we probably added a

third of our portfolio a year, we would certainly have to add more people as we go along. We will probably tend to not add deal makers (partners and leasing agents) as fast as perhaps we have in the past, and we will add staff more quickly.

One of the partners' main concerns is to avoid replicating National's plight. Thus, they continue to stress limited or controlled growth. Michael summarized, "Growth at Capital Partners is going to be a matter of whether we can maintain discipline or not. [We believe] that real estate is a consolidating industry and a difficult market, one that can create very great significant problems if you don't deal with it properly. Growth is not part of our plans. Now, whether we can resist the temptation to do so or not remains to be seen."

Mike Aoki felt that the firm's organizational design would not permit growth: "Growth at Capital Partners is limited due to the firm's structure. We cannot grow, we can only have a limited number of people." But Michael believes otherwise: "When managing a company for growth, there is a cross over point when the inefficiencies of a lattice model overcome the efficiencies of the type of structure Capital Partners has. But if properly handled [our design] might accommodate a large organization."

Despite the preference for limited or controlled growth, there is currently a need for more leasing agents. One option is to shift the marketing burden to the brokerage community. But Michael did not agree with the transfer of responsibility to brokers:

Even though I would not like to administer more people, I would probably be in favor of hiring more leasing agents. I have some senior partners who would not share what I think. It is not the type of thing that would cause dissention between us, at least no significant dissention, but it would be a difference of opinion. The solution to it probably is that sooner or later we will hire more leasing agents, but not very many.

The tension is, are you willing to bring in more people and complicate your administrative life, or are you satisfied to let partners be primarily development partners and let more and more functions be contracted out of the firm? It is a question that has not been answered.

Newer leasing agents have become increasingly concerned that the policy of limited growth means fewer opportunities for them to become partners. Thus, many leasing agents (and some junior partners) support expansion into new markets and increased development volume. Michael said,

I do not know whether [my limited growth policy] is shared by the junior partners or not. To some extent their opportunity depends more on growth than perhaps ours [the senior partners] does, and they would have a little different vantage point on some of these issues than the more senior partners would. They have less to lose, and more to gain, by being aggressive than some of the rest of us might. Although I have not heard any of them press for it or even suggest it.

Another open question concerns Michael's future role in Capital Partners. He reflected on his future with the firm:

With regards to myself, I will continue to come to work because I enjoy coming to work. It is part of my life to come and spend several hours with business people in our office and that is really what motivates me. That may change, but I certainly do not see it now. That is the reason I am there. So, whenever it gets to the point in which it is not as much fun, then I will probably fade away. But if I were to do that, there is very strong leadership in the office, primarily Roger Carter, and in many respects the office does not need me.

But several partners and leasing agents are concerned that the firm might split up if Michael left. As James Stempel said, "If we lost Michael, I believe that the office and industrial groups would split up since each partner has his own group agenda."

Michael has been spending more time away from the office, pursuing business-related interests and his avocation of ranching. One of Michael's sons is also in the real estate business as a broker leasing commercial space for a national brokerage firm. He aspires to get his MBA and should inherit Michael's interests. However, he has yet to be invited to join Capital Partners, and would need to meet the same qualifications as other leasing agents (including the MBA) before he were considered. Denise Conway stated a common view: "Michael's spending more time away is interpreted as a good sign, it shows Michael has confidence. With respect to his son, he is just like Michael and every one likes him. I feel good about it."

EXHIBIT 1
DEAL MAKERS AT CAPITAL PARTNERS

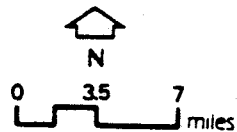
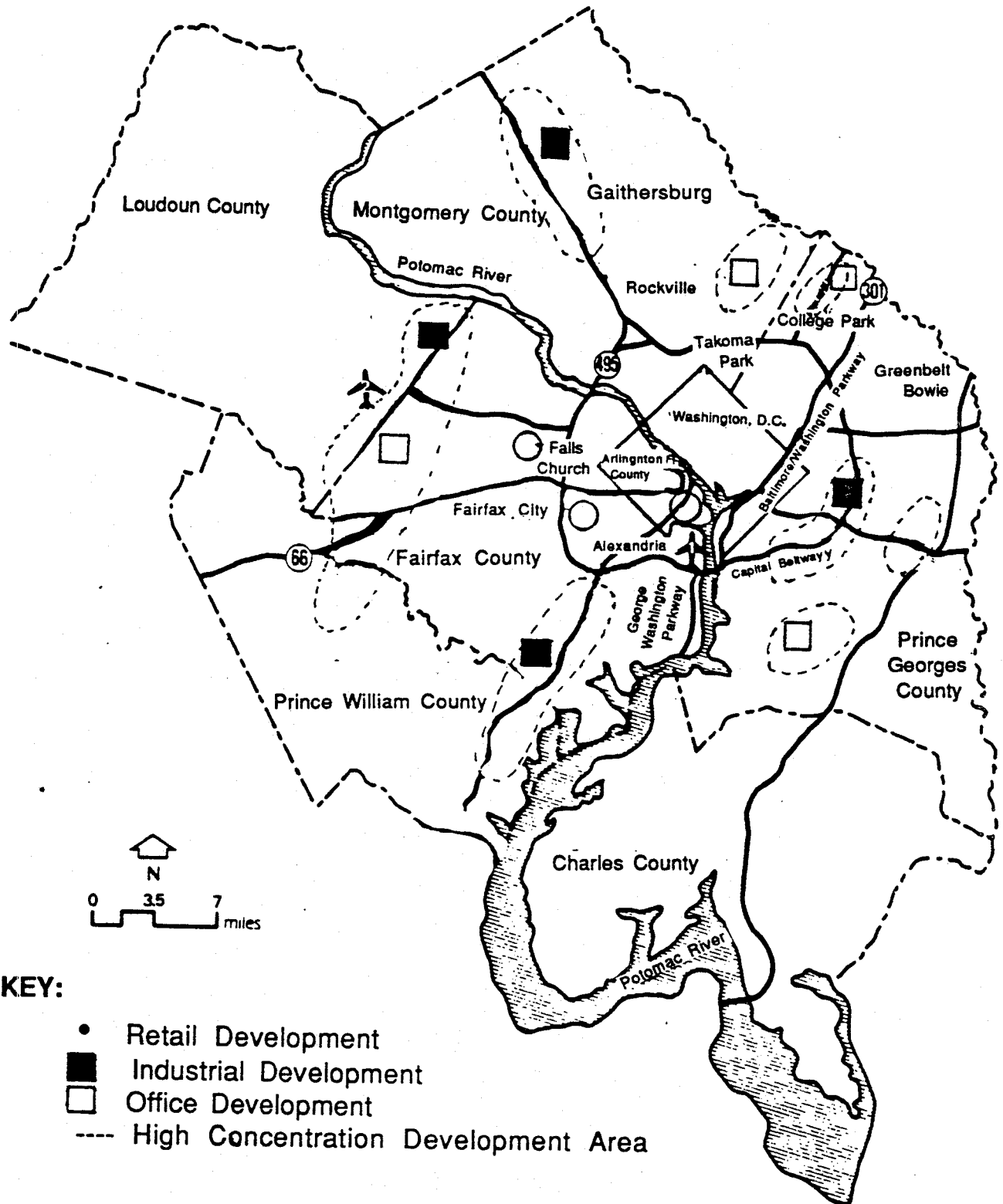
<u>Name</u>	<u>Title</u>	<u>Market Group</u>	<u>Location (by County)</u>	<u>Job Before</u>	<u>Yrs. in Real Estate</u>	<u>Highest Educational Level</u>
Michael Mach	Sr. Partner	All	Fairfax	National	25	BA
Roger Carter	Sr. Partner	Office	Fairfax	National	18	BS
Philip Sadler	Sr. Partner	Retail	Fairfax	National	16	MBA
Edgar Booker	Sr. Partner	Industrial	Fairfax	National	27	BS
Gordon Marsh	Partner	Retail	Fairfax	National	5	MBA
Jerry Dempsey	Partner	Industrial	Fairfax	National	5	MBA/MA
Howard Miller	Partner	Industrial	Fairfax	National	4	MBA
Don Osborne	Partner	Industrial	Fairfax	National	11	MM ¹
Mike Aoki	Partner	Office	Montgomery	National	20	MBA/MUP ²
Paul Palmer	Partner	Office	Fairfax	National	7	JD
Jerry Hunt	Partner	Office	Montgomery	National	11	MBA
George Dupper	Partner	Office	Montgomery	National	5	MBA
Robert Faust	Partner	Office	Prince Georges	National	5	MM
John Rogers	Partner	Office	Prince Georges	National	12	BA
John McGovern	L. Agent	Industrial	Fairfax	National	5	MBA
Whitt Young	L. Agent	Retail	Fairfax	Hotel Corp.	1	MBA
Clinton Hill	L. Agent	Office	Prince Georges	Industrial Corp.	1	MBA
Denise Conway	L. Agent	Office	Fairfax	National	6	MM
James Stempel	L. Agent	Office	Prince Georges	Other Real Estate	4	MBA

¹ Master of Management

² Master of Urban Planning

EXHIBIT 2

MAP OF GREATER WASHINGTON, D.C. REAL ESTATE MARKET



KEY:

- Retail Development
- Industrial Development
- Office Development
- High Concentration Development Area

Airports

- 1 National Airport
- 2 Dulles International Airport

EXHIBIT 3
OFFICE LAYOUT—CAPITAL PARTNERS HEADQUARTERS

