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Executive Q&A - Bradley Hutter: MIG 'in it for the long term'

By MARV BALOUSEK

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The pillars of Mortenson Investment Group are ownership of commercial real estate, equity investments in other businesses and philanthropy.

Besides the new Arbor Gate twin office towers along the Beltline at Todd Drive, Madison-based MIG has developed other nearby commercial properties, as well as buildings along Parmenter Street in Middleton. It also owns the former American Family Insurance headquarters on Madison's East Side. That building is leased to the state Department of Corrections.

MIG also has investments in a dozen other companies, such as Ideal Builders of Madison, a commercial building contractor; Food Concepts of Middleton, which makes merchandising systems for the food-service industry; and Gaming Informatics of Madison, which supplies software to gambling casinos.

The investment and commercial real estate firm was founded in 1995 by Loren Mortenson, who developed Mortenson Matzelle & Meldrum, now M3 Insurance Solutions, into one of the Midwest's most well-known insurance brokerages.

In 2000, Mortenson also created a private family foundation, which made donations of more than \$300,000 last year.

Bradley Hutter began doing legal work for MIG in the mid-1990s after marrying Loren Mortenson's daughter, Joelle. Hutter and his wife become the firm's sole owners in January 2008, although Loren Mortenson still serves as board chairman. The State Journal recently interviewed Hutter about MIG's operations.

Q: How do you choose businesses for investment?

A: Very often, we'll see a business that's exciting and sometimes it's as easy as asking if they've ever been interested in sharing ownership. Sometimes immediately, sometimes years later and sometimes never, they come back and say, "You know, we've thought about that and it's not a bad idea."

Sometimes people come to us, although I've found when people are looking for investment it's usually because of difficulty. Probably the most common situation is when an attorney, accountant or engineer we work with will call us about a company.

If the business becomes very comfortable with us, we'll take a minority position in the company of 10 to 25 percent with a couple of board positions.

Q: When they invest in a business, some investment firms want to replace management, cut costs, maximize profit and then spin off the company after four or five years. How does MIG operate?

A: On the real estate side, we're very much in it for the long term. It's all about building capital and critical mass.

On the investment side, I think it's a very similar type of culture. When we invest in a business, we don't place covenants on that business to perform and we don't place restrictive obligations on management. If we felt management should be replaced because they were running the company poorly, those types of things can be handled in a much different way than us coming in as adversaries and forcing our will on an organization. We would rather feel they have as much to teach us as we have to teach them.

We stress collaboration and we're willing to forgo immediate profitability in order to have a longer-term value, with value being defined as something greater than money.

Q: Some experts say commercial real estate is headed for a crash similar to what happened in residential real estate. What do you think?

A: Commercial real estate typically is a component of a group or an institution portfolio that they refinance every three, five or seven years. A lot of commercial real estate was set in financing prior to last fall, so the implications of what's happened in the economy or the financial markets hasn't really affected it yet.

We're going to see the impact on commercial real estate in Madison when we get into the third and fourth quarter of this year when a lot of properties need to refinance. Bank underwriting has become incredibly aggressive, much more detailed and more in depth. The banks are not loaning as much money out on a loan-to-value ratio as they were previously. And the economy is such that many tenants in that same time period have shrunk, moved or gone out of business.

That is going to create a situation where, from my perspective, there are going to be a substantial number of commercial real estate owners and developers that are going to be under water when it comes to refinancing this fall and next spring. What are the implications of that in Madison? It's hard to say, but I don't think it's going to be good.

On the other hand, we're seeing a significant upturn in the last six weeks to two months in people looking to lease from us because of the perception -- and it's real -- that we have the ability to take care of them in very challenging and scary times.

Q: Despite its great visibility on the Beltline, why has leasing been slow at Arbor Gate with an estimated 85,000 square feet still available?

A: There are a few reasons. One is that we are really looking for larger block tenants. Could we parcel it off and in a building that size have 60 tenants? Certainly, we could do that. We prefer to lease floors and half floors at a time. We're being a little more selective about types and quality of tenants.

We've also always done all the leasing ourselves. With Arbor Gate, we didn't do that for the first 18 months and that was a mistake. We have just taken that back in the last six weeks and the response has been incredible.

Finally, when you would typically look to really hit the ground when the building was going up and visible would have been around October to November of last year and that's, of course, when the economy's bottom dropped out. Even groups that were looking at making a move and potentially leasing at Arbor Gate literally put the brakes on for six months.

BRADLEY HUTTER

President, Mortenson Investment Group

Corporate address: 3001 W. Beltline

Web site: www.migllc.biz

Age: 41

Employees: 22

Annual revenue: \$10 million

Education: Law degree, Wake Forest University; undergraduate work at UW-Madison

Family: Wife, Joelle; daughters, Lauren, 9, and Grace, 7