

National Realty Club
March 6, 2006

Again
By Daniel Rose

“Everything that should be said has been said,” noted a philosopher; but, he added, “since they weren’t listening the first time, it must be said again.”

Your invitation to reflect on half a century’s professional involvement in real estate has proved thought-provoking; but rather than relay platitudes found in self-help books, I thought it would be more interesting if I posed some questions that I have asked myself. My answers reflect my thinking and might stimulate yours.

- If business is part “art” and part “science,” what steps are you taking to master the art and to keep up to date on the science?
- If business cycles and real estate cycles will always be with us, where are we now in the cycle and are you planning accordingly?
- Looking ahead five, ten or 15 years, where would you like to be and what plans do you have for getting there?
- Considering all the demands on your time—family, business, pro bono, personal development—are you satisfied with your present balance, and what changes do you contemplate?

- On a more fundamental level, are you the kind of person you respect and admire?
- Finally, how would you like to be remembered by family, friends and colleagues?

No one else can answer these questions for you, and each of us will have a different response; but the act of thinking them through can only be helpful.

Take the first question, of “art” vs. “science” in business; we all know what we do, but we also know it can be done better, and even “art” skills can be polished.

In a world of bewildering technological change, the “science” part is more challenging. Many successful older people still do not use e-mail or the Internet; and younger people are often unaware of the mathematical tools and “business school techniques” that their competitors have mastered.

It is part of American folklore that Bill Gates, Michael Dell and Steve Jobs were college dropouts, but if they were asked today if they would recommend that route for their own children, or more significantly, for their professional “heirs apparent,” it is unlikely they would do so.

It is true that some things cannot be taught: the willingness to take extreme risks when conventional wisdom is against you, a passionate commitment to an idea, the ability to rebound from failure and so forth.

But much can be taught—learning to draft a good business plan, to

read and understand financial statements, to structure a complex deal, to become familiar with standard techniques of personnel management, marketing, etc.; all of these are valuable background for any aspect of the business world, regardless of one's specialty at the moment.

One recent business school graduate told me that the most important insights he gained from his MBA studies were a clear understanding of the "time value" of money, of the power of "compound interest" and the concept of "reversion to the mean"; those are not bad thoughts to absorb.

Today young people are likely over the years to have several different employers, to assume several different professional roles and to need several different skill sets. A knowledge of business fundamentals will help in all those situations.

The second question I pose relates to business cycles in general and real estate cycles in particular.

None of us has an unclouded crystal ball, each reads the same economic forecasts, and each makes personal judgments.

I confess, however, that I did not know what to say to a friend proud of his newly acquired condo in Naples, Florida, when I had just read a national study estimating that housing prices in Naples, Florida were overpriced by approximately 84%!

We know that our country's "twin deficits," domestic and foreign, are huge and unsustainable and that our rate of national savings is below zero. We know that by historic standards of price/earnings ratios, U.S. stocks are significantly overvalued; we know that, nationally and internationally, we are faced with important

imponderables.

The consensus economic forecast is optimistic, and I desperately want to believe it; but I also remember Tom Lehrer's comment about "being as nervous as a devout Christian Scientist with "appendicitis." You have to make your own call.

Bringing up on Google the topics "business cycle" and "real estate cycle" will prove thought-provoking.

The third question I pose—looking ahead—is a personal and individual one. The philosopher Heraclitus noted that you cannot step into the same river twice because you are changing and the river is changing.

Since I entered the real estate field, the evolution of the field has been staggering; there is no reason to believe that the rate or change will be any slower in the future.

Some forty years ago, when I expanded Rose Associates' operations into Boston and Washington, the move was considered odd, because at that time developers acted locally, architects worked locally, and banks essentially lent locally.

Today, of course, real estate thinks and acts nationally; and tomorrow it will do so internationally at an ever-increasing rate.

But always remember—you are changing, the field is changing, and you should plan accordingly.

The fourth question deals with how we allocate time, energy and emotional involvement among family, business, pro bono and personal development. These are decisions each must determine

for himself or herself. But the question should be asked again and again, because as we change, our priorities should change accordingly.

The fifth question I pose—are you the kind of person you respect, and even admire—is like a report card on life, but one we grade ourselves.

Our field has had some splendid role models—brokers and consultants like Henry Hart Rice, James Felt and John White; developers like Lew Rudin and Fred Rose who were complete men leading full lives, who were a credit to themselves, to their firms and to our industry. And it is worthwhile to recall them.

Psychologist Abraham Maslow drew up a famous hierarchy of values, beginning with one's basic material needs, then emotional and psychological satisfactions, first, in comparing our achievements to those of other people and then in how we are regarded by our community.

Finally, he noted, after your material needs have been met, after you have outperformed your next-door neighbor and your brother-in-law, and after you have received the honors you crave, what next? Then, he said, you should strive to become all you are capable of being.

Americans love to quantify intangibles—for example, Robert Parker's rating one wine a "95" as opposed to another "96." These days, social scientists have started to quantify "happiness," and it turns out that statistics show that material possessions are of great importance only to those who do not have them.

Health and money are immensely important if you lack them.

Health once regained tends to be taken for granted, and what economists call the “marginal utility” of money diminishes significantly as you get more and more of it, except for the purpose of display and one-upmanship.

Donald Trump is preparing to market a Palm Beach house for \$125 million; another house sold recently for \$92 million, a third one, not even on the ocean, just sold for \$50 million; and a dot.com magnate just paid \$100,000,000 for two paintings, a Van Gogh and a Cézanne. Tabloid readers will indeed be impressed.

All recent studies of “happiness” show it has three components—pleasure (some importance), engagement (more) and meaning (most).

Of all the pleasures you can buy, experience by far outranks material possessions; engagement with family, friends, work, romance, hobbies—is more important for happiness; and meaning—applying your personal strengths and resources to some larger end—is by far the most significant measure of happiness.

Last Spring, the Central Harlem junior high school chess team I work with won the New York State Championship, and it cost an unbudgeted \$20,000 to send them to the national finals, where they came in number two in the entire country.

It is hard to think of another \$20,000 expenditure that gave me more joy.

Andrew Carnegie, the patron saint of American philanthropy, once said that he could not understand why successful people did not devote the same time and attention to disposing of their money than they did to earning it in the first place.

Yes, it is satisfying and it is fun to earn money; it can be even more satisfying to dispose of it appropriately.

So my final word is to wish you success in earning your fortune, success in enjoying it, and success in disposing of it.

Meet these goals and the likelihood is that you will be well remembered.

Daniel Rose talks can be found on: www.danielrose.org