

Secrets of Real Estate Development
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Good afternoon, graduates; and welcome to the ancient and honorable calling of real estate development!

The individuals who planned and built the Acropolis in classical Athens, who created the Forbidden City of Beijing in ancient China and the mountain complex at Machu Pichu, are in a sense your forebears; and when, as entrepreneurs, you scurry about for financing, think of Christopher Columbus coaxing Ferdinand and Isabella into underwriting his voyages of discovery or of Sir Francis Drake cajoling Queen Elizabeth the First into financing his privateering ventures.

Queen Elizabeth's cash-on-cash return was approximately 50 to one, as I recall; although real estate syndications do not deliver quite so much, the nature of the promoters' pitch was probably

similar.

It is a matter of historical record that the majority of opinions given by the Delphic Oracle in ancient Greece were similar to those presented to a potential mortgagee or investor.

Seriously, when a new Greek colony was being projected by its promoters, handsome gifts (now called fees) were presented to the priests at Delphi, and, in due course, the Pythia delivered the desired opinion that the colony was sure to succeed and that smart participants could make a killing by getting in on the ground floor.

“Plus ça change, plus c’est la même chose,” say the French; and they are essentially right.

Today is your Commencement, literally, your ”beginning,” and it seems appropriate at this auspicious moment to let you in on some secrets that you will soon share with your professional colleagues, secrets of which the “uninitiated” are unaware.

The first is that our field (although we try to deny it) is really a lot of fun.

The range of people you will meet, the variety of problems you will deal with, the rhythms of a project—its planning, its implementation and its completion—are exhilarating to a degree that few outside the real estate field can fully appreciate.

Perhaps actuaries really do enjoy toting up columns of numbers or dentists, pulling teeth, and, for all I know, morticians may actually look forward to visits to the morgue; but there is absolutely no doubt that developers approach their activities with zest and enthusiasm.

The Bible was probably referring to us when it said, “Man is conceived in ecstasy but born in labor,” “By the sweat of thy brow thou shalt earn thy bread” and so forth; but you would be hard pressed to prove it by seeing in action the exuberant developers I know.

When you try to explain to your family and friends exactly what it is that a developer does, perhaps the closest analogy to your role that you can use is that of the producer of a play, with the

architect like the playwright, the tenants like the audience, the mortgagee like the angels, the construction people like the actors and stage hands, the general contractor like the director, and so on.

Theatricals close, however, whereas, for better or worse, buildings last. Some are a source of pride, some of embarrassment (or they should be!) but they are there.

The poet Paul Valery observed that most buildings are silent, others speak, but some rare buildings sing. We all hope that at some point in our lives we will be involved with those rare “singing” ones of which we and our whole society can be proud.

The Seagram Building, Lever House, Rockefeller Center and projects of similar quality represent our field at its best—where major capital values were created for the owners, where the occupants enjoy their space, and where the general public takes delight in the addition to the cityscape.

All three are legitimate and simultaneous goals for the developer. I will always remember my father’s comment when he

saw the civic award our company received for developing the Bankers Trust Company Building on Park Avenue. He was pleased to note, he said, that the ink on the award was as black as the ink on our corporate ledger!

Of course you want your project to be economically successful; but the pride, the satisfaction, the pleasure one gets from the successful exercise of one's professional skills are also important forms of recompense; and in the course of your careers I wish you all much of them.

A second secret that developers share is an awareness of the hard work, the professional skills, and the knowledge of current financial and market conditions that go into successful ventures.

Today, in many fields, it is the custom to try to make accomplishment look easy or due to luck; and I think that is a dangerous hoax being played on the young.

Olympic champions make light of the formidable amount of hard work that precedes their success; great musicians and opera

stars act as if they were born playing or singing the way they do; and the public, especially the less perceptive part, never learns the true price paid for consistent success.

When the great pianist Paderewski was once introduced as a “genius,” he replied, “Yes, I am a genius; but before I was a genius I, was a drudge.”

The truth is that in the real world short cuts are few and far between, and you will be wise to learn, not the “tricks of the trade,” but the trade itself.

A third and final secret deals with the personal character that most successful developers share, since a thick skin, formidable perseverance and polished negotiating skills are more crucially important than they may appear. Everyone knows that imagination and an appetite for risk are required, just as they know that there does not exist in nature a timid, pessimistic or lazy individual whom other developers would accept as one of their own. But in today’s climate of increasing hostility toward development

everywhere, that does not begin to tell the story.

In working his way through the obstacle course that invariably confronts him, a successful developer needs the determination of a salmon swimming upstream to spawn. In putting up with inevitable delays, he must feel in his gut Ambrose Bierce's classic definition of "patience" as a "low grade form of desperation masquerading as a virtue."

As for negotiating skills and the ability to present his case effectively to the public, he knows that he cannot survive without them.

Before the concept of zoning was introduced in 1916, the developer could paint as he wished on a blank canvas. After that date, government in one form or another set the ground rules.

Today, however, a new wind is blowing; and it is interesting to note that in the recent controversies of, for example, Westway, the proposed highway restructuring along the Hudson, or of the major redevelopment at Columbus Circle, it is not government

officials, but the general public which played the decisive role.

From today on through the rest of your careers, it is likely that community planning boards, public interest groups, even next door neighbors will have an increasingly important influence on what you are permitted to do on your property.

In a climate of public opinion increasingly hostile to development of any sort, environmental impact reviews, so-called “linkage” requirements, and exactions of various sorts will be continuing facts of life. The sophistication required to deal successfully with such issues will be, for most developers, a major stock in trade.

The widespread hostility today toward development and developers calls to mind Lenin’s comment about the Russian mob—“They cry bread, bread; and to accentuate their demands they burn the bakeries!”

But that subject is another story for another day.

As the problems faced by our field become increasingly

complex, the skills required by you and your fellow practitioners will multiply. It is interesting that the very program for real estate development from which you are being graduated today at Columbia is only four years old, and that similar programs at MIT, Penn and other universities were created only in the last four or five years.

A Jain Buddhist expression says that “When the student is ready, the guru appears.” Just as your studies in real estate development represent the newest of the new, so, in a sense, they also represent the oldest of the old.

The oldest known manual for the formal training of builders and architects was written by the Roman architect Vitruvius in the first century B.C. In his opening chapter he described eloquently the background that a practitioner should bring to our field, and your professors today would not disagree.

Of course, Vitruvius was not aware of phrases such as “time value of money,” “internal rate of return” and the like, but his

attitude was as current as tomorrow's headlines.

Vitruvius states in his opening paragraphs his belief that theory must go hand in hand with practice, that those who trust only to theory "follow a shadow and not reality." He goes on to plead for a broad general education for builders and architects, saying that the student should, in addition to his technical training, be knowledgeable and well-rounded, in order to fulfill properly his important responsibilities.

Specialists think that the world is divided into specialties, but, says Vitruvius, wise men know that, "All studies are related to one another and have points of contact" and that "A general education is put together like one body from its members." He noted that "those who from tender years are trained in various studies recognize the same characters in all the arts and see the intercommunication of all disciplines, and by that circumstance more easily acquire general information."

Graduates, today we are called "the information society," but

wise men realized we were that all along.

In addition to Vitruvius, a second influence should be Adam Smith, the apostle of the marketplace, who felt that serving the community and serving oneself are not necessarily in conflict if the ground rules are wisely thought out and clearly stated.

It is not up to the marketplace to make the ground rules; its contribution, as even Mr. Gorbachev now seems to understand, is to function efficiently and effectively under them.

Adam Smith understood the limitations of the marketplace and the corresponding roles of other entities.

Determining and meeting unmet needs, legally and profitably, is the role of the entrepreneur in our society; and rewards, both material and psychological, flow to those who are successful.

In practice, whether they realize it or not, successful entrepreneurs in all fields follow the Lafayette approach. The story is told that during the French revolution, the Marquis de Lafayette was having a glass of wine in a Parisian café when someone burst

in shouting, “Where is the mob going?” Lafayette gulped his remaining wine, pulled on his jacket and said “I don’t know; but I have to get there first, because I am their leader!”

Like Lafayette, the successful entrepreneur “follows from the front,” anticipating as best he can what his clientele wants so that they will pay him something over his cost in supplying it.

Perceptions of what constitute needs are always changing, and one interesting instance is worth exploring.

In the ‘teens and 1920’s throughout the United States, the centers of public excitement and celebration were grandiose railroad stations; and monuments like Grand Central Terminal or the Old Penn Station, modeled on the Roman baths of Caracalla, were replicated in every major city.

In the 1930’s they gave way to dazzling motion picture theaters like the Roxy, the Paramount and Radio City Music Hall. In the 1940’s the center of excitement shifted to major airports, where people delighted in watching the arrival and departure of

airplanes with exotic destinations. In the 1950's and '60's excitement shifted to regional shopping malls which were really new "town centers." In the 1970's vast hotel atriums several hundred feet high were the focus of public excitement, just as today glitzy gambling casinos seem ready to fill that role.

If you, as a group, seek an appropriate challenge, here it is:

With gambling casinos the structures that seem to represent our time, with affordable housing for a sizable fraction of our citizens our greatest failure, surely those entering real estate development today have their work cut out for them in finding new and better solutions.

Solve those problems and you will receive cheers from your society—and what is more, you will deserve them!

And now one last comment from the classical world:

The Roman theologian Tertullian could have been thinking of you when he wrote that, "Any calling is noble if nobly pursued."

Columbia is sending you out into the world with your

Masters Degree in Real Estate Development. As you end your formal training and embark on your professional careers, may you pursue your activities in a way that reflects well on yourselves, your teachers, your families and your society.

If you do, all of us will benefit, and all of us will bless you!

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