



DUVAL & STACHENFELD LLP

Keynote Address by Managing Partner Bruce Stachenfeld at IMN's 12th Annual US Real Estate Opportunity & Private Fund Investing Forum

Let me introduce myself. I am Bruce Stachenfeld. I am the managing partner of Duval & Stachenfeld. We are a 50-ish lawyer boutique real estate law firm in New York City. Thank you for coming this morning.

What I am going to talk about this morning is an ambitious topic.

How to achieve success in the real estate business.

Why is a lawyer qualified to speak on this topic – I admittedly don't know a great deal from a chicken dinner – that is not my skill set – but I have an advantage you don't have. While you see your business in great depth – greater depth than me – I on the other hand have seen hundreds of businesses over my 30 years.

During my close to 30 years I have gleaned some interesting insights into what works and what doesn't work.

My biggest insight is that the biggest determiner between success and failure of my clients is whether they focus their businesses around a single critical factor.

What I mean to say is that clients who make this factor the focal point of their business tend to succeed and those who do not tend to fail – and it is this:

Those organizations who make the whole point of their business about how to attract, hire, train, love, nurture, grow and retain talent almost invariably do well – and those who don't do that usually either fail or do a lot worse than those who focus on this point.

This is not to say that poor or good underwriting and disciplined investing won't matter – of course it will – and it can partially compensate for focusing or not focusing on talent, but that is usually the case in smaller organizations – the bigger you get the more it becomes critical to rely upon your talent for success ...or failure.

To put it more provocatively, consider whether if instead of spending your time looking for deals, you just spent your timing hiring talented people and keeping them happy?

Ultimately this is easy to say but not so easy to do.

I would like to explain what I mean in more detail by first telling you the story of my business as a law firm and then applying it to your businesses next.

In the beginning – around 14 years ago – I started a law firm.

Unusually, I started with the concept of love as its key principal. It was the idea that we would really “care” about our lawyers and our clients – as opposed to just thinking of these parties as people who enrich us by paying us fees or billing hours.

I was inspired by how terribly miserable everyone was in the legal profession and how depressing it was to work as a lawyer in a major law firm. So I decided to do something completely different.

Everyone told me I was completely crazy.

It admittedly started out kind of rough as we were fighting to survive in a rough and tumble market against mega-sized competitors with just a few untrained lawyers.

But over time what happened was almost miraculous.....once people (lawyers and clients) realized I was serious about love being the key to the firm and what we were about....they started to really like being with the firm.

I admit I didn't really realize what was going on until it had mostly already happened but it was a virtuous cycle – my talented lawyers stuck around – every single one. No one wanted to leave. We were all having a good time and somehow the busier we got the more special it felt to be in the trenches together.

And then the recession hit. Our business had been good and then it fell off a cliff. No one had the slightest use for real estate lawyers and like everyone else we came close to folding.

We had a “bet-the-company” decision – just like probably everyone in this room one way or another. Should we fire everyone or stick together.

A law firm built on love had no real decision here. We were going through it as a team or not at all. And that was the decision we made. We kept virtually everyone on the ship. Sink or swim – together.

A little vignette is as follows:

It was sometime in the bowels of 2009 and I was at a party with one of my core real estate partners – Todd Eisner – who had joined me about 5 years before. We were both in the bag truth be told – we both like Macallan scotch and had been chugging it down steadily for a couple of hours.

I turned to Todd and said "...you know Todd I don't know if we will make a single dollar this year. And I don't know if we will make any money next year either."

Todd – without missing a beat – said "You know if it is me and you and Terri (one of my other partners who chairs the real estate group now) – if it is me and you and Terri not making any money together that is just fine with me."

I didn't know it but with love as the ingredient we had created the ultimate business – people wanted to be there so much and were having such a good time they would work for free.

Funny thing – I keep reminding Todd of his promise to work for free but he claims he can't remember the conversation somehow...

So that is my story – by focusing on love as the magic bullet to draw in talent and retain it I had managed to survive the worst real estate downturn ever and live to ride and thrive again. We are still here!

So now I turn to your businesses – how does this apply to you all?

I think it is obvious that the real estate world has changed in a fairly dramatic manner in the past ten-ish years. And I don't mean the great recession. That was ugly and awful but the changes I am talking about are much bigger.

And that is that the instantaneous spread of information and capital is making the real estate world more and more like the stock market. Where everyone knows everything at almost the same moment in time and where money almost instantly can move from one location to another. So the old ways of mining for real estate gets harder and harder to do.

I think many thought that with the crash there would be a time of distress when you could just scoop up bargains. And that did happen but only for a few months in 2009. And then it was over until now the chief lament of everyone is where to find good deals.

So how do you succeed in a real estate world where presumably everyone knows everything at the same time?

I think you have to make money the old fashioned way – you have to earn it!

And how do you earn it in real estate – I submit that you put together two things:

First – insights about real estate – something no one else sees that you see.

Second – the ability to pull it off – the employees, contacts, expertise, to pull the pieces of the deal together and make it happen successfully.

And in order to do that what do you need.....you need only one thing and one thing only....you need to have an organization populated by people who are at the highest level of their craft – i.e. for you, just like me, it is all about the talent.

Talented people are chock full of insights – and chock full of ability to pull things off – and more than that if you have talented people around you others think more of you.

Consider this proposition:

You have a few dollars and a bunch of years of expertise (Real Estate 1 point O) and you are plotting your next move to Real Estate Two Point O. All you need to do is hire some star people, teach them what you know, create a place where they won't quit on you after you teach them, and then just get out of the way.

Is it really as simple as I am saying? I admit I am overstating this to make a point – of course – but not by that much.

Now if you go with my thinking your next question has to be – how do I do this – how do I pull it off?

That is admittedly a difficult question. The question is how do you attract and retain talent?

I don't claim to be one of those great thinkers but here are some principals that I have come up with over the years having watched all my clients run their businesses and building my own law firm:

First – and foremost - talent wants to be with other talented people. They crave it in their souls. They will put up with major “not nice people”, miserable treatment, and horrible working conditions, if they are convinced there are others doing it with them in the trenches.

Second – talent wants to be with a winning team – they are winners and they like to win. They don't want to be with losers.

Third – talent wants excitement and the feeling they are doing something cool. It is like Tom Sawyer painting the fence – if it somehow looks cool to paint a fence then people will want to paint that fence. With us it was “love” that was cool to all of us.

Fourth – talent wants a place where they will learn all sorts of amazing things. They like to learn cool stuff.

Fifth – talent wants to be recognized. They can be very team-oriented if they respect the team and that there are other stars on the team. But there is a saying “There is no I in team but there is a ME”. This is hard to do – forge a team but at the same recognize the work of the stars.

Sixth – talent – just like everyone else – wants love and appreciation. It is the most basic human emotion.

Seventh – talent wants to be challenged – and to get to do what they do best every day.

Eighth, and finally, talent wants a place with great leadership. We could talk about leadership for hours – but I think the two ingredients are:

Smart – someone who makes good decisions and who will not lead the team off a cliff.

Integrity – someone who is sickeningly, nauseatingly, honest in every respect, puts the company first, and makes it 100% sure he is looking out for his team at all times and in all circumstances.

Now, let me diverge for just a second to talk about one of the great geniuses of the past 100 years – Peter Drucker. In brief, Drucker is the father of “Management” as a scientific discipline.

And if you are with me so far that the essence of success is bring in and growing talent then you are in the “management business” just like me.

Among Mr. Drucker’s many dramatic insights into the successful running of businesses, he said that the biggest change in the world in the past 100 years is something very subtle but very important – and it resonates on what I am saying here about leadership of talented people so I will mention it to you.

And this is exciting so please listen closely.

He says that workers today are largely not “manual workers”. They are what he calls “knowledge workers”.

What are the implications of that?

The implications are non-obvious but dramatic. If the laborer is a manual labor then the boss/the company owns the units of production and thereby holds all the cards. If the boss fires the laborer, then the laborer is toast.

But with knowledge workers it is the other way around. If I train a great lawyer and give him access to all my clients and she leaves. She takes it ALL with her. I am toast.

Consider the almost incredible implications of this.

You may think you are the boss – but you aren’t – not one bit – because if your talent leaves you have zilch.

As it is said – that a people without a king are still a people – but a king without a people is nothing at all.

So my final point about talent is that you aren't their boss – they are knowledge workers and own the means of production – instead you have to be their inspirational leader or they will leave. Maybe they can't always leave instantaneously if the job market is bad, but as soon as they can they will leave, and if they are really talented then your competition will be most pleased to have them. In a kind of annoying way you work more for them than they do for you.

So – I ask you as I went through the foregoing, are you an organization that attracts talent – that is exciting – that recognizes and loves your talent – and do you have strong leadership...or the converse...and consider the implications of this...

....

Now let's talk about how to succeed in the real estate business in a more practical manner...

Let's talk about an amazing thing that probably almost everyone missed over the past three years and that is this:

During the great recession, in real estate, what was lying on the ground to be picked up and harvested was not bargain real estate. Those bargains lasted for only maybe 90 days in 2009 as I mentioned before.

But what was lying on the ground for harvesting was people with great ability. For the first time you could have greatly improved your team's talent level. The people were there for the picking.

And – you know – they are still lying around a lot of these people who don't have their next gig yet. I think it is a lot easier to hire talent than it is to find good deals in the new real estate age of instantaneous information.

This is what my firm did in the real estate law business. Despite our business tanking like everyone else's, we couldn't believe all the great lawyers just lying on the ground like fallen fruit under a peach tree. While everyone else was firing, we were hiring. Never before had we seen so many great lawyers available to come to my firm. So we grabbed them and took a leap of faith that the work would come to super-talented lawyers.

....

So to bring this all together...

The way to succeed in the real estate business is very simple

Make your organization one that hires and surrounds itself with people who are much more talented than yourself. Spend your time thinking about how to do this and make this the focal point of your business.

What I am saying to do isn't at all easy – it is really hard I admit – but the good news is you don't have to be a genius to do it. You just need to surround yourself with geniuses, keep them happy, and get out of the way...

And it really works!