



DUVAL & STACHENFELD LLP

Keynote Address by Managing Partner Bruce Stachenfeld at IMN's 2013 US Real Estate Opportunity & Private Fund Investing Forum

I read a book a year or so ago called *The Purple Cow*, by Seth Godin. Let me tell you about it.

The theory of the Purple Cow in a nutshell is that you should try to **STAND OUT** like a ...purple cow would stand out.

If you don't **STAND OUT** then you just blend in and you are nothing at all.

Okay so that is a good point – as if you didn't know that already. But it is not that simple. And here is why. Our instincts and everything we learn every day – our emotions – our friends – our colleagues – our partners – our lenders – and loved ones – all lead us in the safe (and wrong) direction.

And the reason for this is very simple:

If you do something that stands out, then by definition it has not been done before or at least isn't being done now and it is therefore risky.

You might just fail;

You might lose money;

And worse yet you might get laughed at.

Trying something new that stands out is by definition dangerous and scary – you could be totally humiliated.

But here is the good part: purple cows when they are successful are mind-blowingly successful.

A quick example is that family law firm in Chicago that caused all holy heck of a ruckus by posting sexy ads of men and women in provocative poses with lingerie and saying.

'Life's Short. Get a Divorce.'

All heck broke loose. Many people were offended. But many other people called the law firm up to retain them!

And this brings us to the mathematical contradiction of the purple cow – and the main place where your instincts lead you astray. When you think about marketing or evaluating an idea your instincts tell you:

Don't offend anyone.

Don't turn off anyone.

Don't do anything wrong.

Because the person you offend could be the person you want as a customer!

But that absolutely is the wrong way to think. Because in almost no business do you need everyone or even close to everyone as a customer.

You just need some customers to really in the worst way want to come. This applies to selling condo units, leasing space, raising money from (most) investors, and most other real estate businesses.

If you get nothing else from my words this morning this is the key point – you don't need all customers – just a few customers who really want you badly.

So far this is very theoretical; let me now apply what I am speaking about to my law business and then your real estate industry and see where this takes us.

First let me talk about my business and who I am.

I am a lawyer – my name is Bruce Stachenfeld – I am the managing partner of Duval & Stachenfeld. We are a 70-lawyer law firm in mid-town Manhattan which is entirely centered around real estate; indeed, we call ourselves the Pure Play in Real Estate, since all our practice areas are centered around real estate.

And things are pretty good right now – business is great – lots of our clients (many of you out there this morning) are very busy doing cool deals, which is great.

However, long ago, when I started out things weren't good at all. Like any fledgling business we were struggling.

And I devised a plan – to build a law firm based on the theory that we would care about our clients. Kind of “love” if you must know. I hope I don't sound like a long-haired hippy type from the 60's (and I just got a haircut).

Everyone – and I mean everyone – told me this was about the dumbest idea ever. This included my partners, my employees, my friends, and my family.

But I didn't give this up. I knew that most lawyers weren't happy and most lawyer/client relationships were uninspiring. There had to be a better way to do things and maybe this was it, so I kept at it.

I didn't realize that it was a purple cow – and honestly I wasn't even trying to stand out – but it was certainly different from what everyone else was doing.

Eventually my firm went along with it and it evolved into our hedgehog principle, which in a nutshell is that we deeply care about our lawyers and our clients not just because lawyers bill hours and clients pay money but because there is something special about the relationship.

Fast forward – now it is the centerpiece of our firm. We have a hedgehog committee – that is dedicated to just making our firm a great place to work – a hedgehog logo that reminds us why we are in business. And everyone – lawyers and clients – get a stuffed hedgehog to remind us.

So things are great right now. We never lose people and we never lose clients either. The reason is simple – everyone loves to be loved.

Yet when I started this out it was an idea that everyone told me was just plain stupid. It was a foolish sounding idea that seemed utterly crazy and has now become the heart of my business and the depth of the reason for its success.

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Ok, enough about me – now let's talk about Purple Cows in the real estate world:

First purple Cow: Is first class office space in New York City (and elsewhere) about to become obsolete? For the simple reason that young people today want something completely different from what us mostly-older people here want?

They like to share things.

They like open spaces that they collaborate in and smaller work spaces are just fine.

They like cool interesting things at the office.

And even though everything right now is dominated by (us) older people who want more traditional offices, like it or not (we) older people will retire or die at some point and the younger ones will take over.

If this is right, are we crazy for paying top dollar for the “safe” first class office space?

Second Purple Cow: Does it make sense to pick a place in one kind of homogenous community and develop the exact opposite living style?

Perhaps a stated gay-friendly apartment building in a bedroom community with no particular demand for this that is discernible? It probably seems like a terrible idea on its face, but maybe there is a small amount of demand for this product and you are the only game in town and you can charge whatever you want?

This is what Enterprise Rent-A-Car did when it went into business to “not” sell rental cars at the airport. Everyone said that was crazy, but fast-forward thirty years they dominate the industry and own all their little markets and the guy who started it is about the fifteenth richest man in the country. Not bad for a purple cow...

Third Purple Cow: Does it make sense to raise a fund? Everyone keeps talking about it all the time – the holy grail of raising a fund. But does it really make sense? The only thing for sure (by the laws of mathematics) is that it will be harder for you to make money since you will have all your promotes crossed and a longer period of time during which your deals – and your promotes – are subject to market vicissitudes. It almost certainly makes sense for the big boys and girls to raise big funds (due to the stabilizing factor of the annual management fees) but not as sure as for the smaller players?

Fourth Purple Cow: Right now due to government policies interest rates are at insane lows. You can get 30 year HUD debt at I think less than 3% and ten year debt on multifamily for not much more. Isn't it logical to take as much of it as you possible can? Yet everyone says excessive leverage is bad. Free money for 30 years is bad? Doesn't make sense to me. What kills people is not leverage – it is leverage that comes due when times are bad – those with long-term debt hardly noticed the recession is the proof in the pudding.

Fifth Purple Cow: How about gambling? You shouldn't gamble should you? Terrible idea. But maybe that is completely wrong. How about this – and I suspect this is not going to be a popular view – it is hard to explain succinctly, but I will try my best:

If Party A was conservative and took 65% leverage and Party B was a gambler and cleverly got 99% leverage,

Then the market tanks and prices drop 40%.

Both Party A and Party B are wiped out – equally.

However until the crash Party B benefited a lot more than Party A.

So it is not necessarily true that the conservative party A will always do better than the gambler Party B.

So I suggest that instead of labeling things as gambles or prudent, it might be best to just say everything on the risk/reward spectrum should be evaluated by whether you are being compensated for the risk by an appropriate over-reward.

Sixth Purple Cow: How about the concept of naming your business? I think of a name as free advertising but I think most people think of it as a way to blend in and run away from purple cows. Let's say your business proposition is putting out capital in unusual and difficult and tricky situations – situations where no one else would touch it you go in and take the high risk and in return you charge a ton of money for your capital. You name your business:

American Capital Providers

This is a name that is absolutely astonishing for how easy it is to forget it. Does anyone here even remember the name even though I just said it? [Boy I hope no one here is really using that name – it would be embarrassing!]

How about some more unusual names:

Whacky Capital
Strange Capital
Funny Money
Capital-In-Unusual-Situations-.Com
NFW Capital

Try forgetting those names? Indeed – sad to say for me – but possibly the “only” thing you will remember about my words this morning might be these strange and kind of dumb names...

All of these names are edgy. All of them are scary – and maybe all of them are kind of silly – but all of them tell everyone (employees, third parties and yourself even) what you are about. And guess what – when you are not around, every time anyone who has heard it talks to anyone about a “whacky” idea they will refer that person to you!!!

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So those are all the purples cows I have time allotted for this morning. I do have some more at my booth. I hope at least one of them is useful.

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So we all have two choices in our real estate business lives:

We can go through life and our careers in the business world as people, who always play it safe, and we can tell ourselves all sorts of reasons to do that, or we can go for the gusto.

What I have learned over time is this...if I try to do exactly what players who are bigger and stronger and more established than me are doing in exactly the same way they are doing it – and I try to do it better – the only things that will be happen are:

I will fail.

I will fail slowly.

I will never be embarrassed.

And I will not really ever even know why I failed – I will just gradually fade away.

And you too – you could indeed play it safe – or you could go for it. And have no excuses whatsoever. And if someone asks about your failure, you could just say honestly:

“I went for it and I failed. And I will try again and maybe next time I will win.”

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I have two final things to leave you with before I step down:

First – we are giving out The Purple Cow as our conference giveaway this year. Just come to our booth and my Client Relations Director, Caitlin Velez, will be happy to give you a copy (although she may wrest a business card out of you).

Second – I give you a very sincere invitation. If you have a creative idea – for a new real estate business line – for a crazy real estate project – for something no one has done before – a truly nutso idea in the real estate world – and you don’t know how to put it together, I hope you will call me or email me or visit me. This is what I live for. I love people with creative brains and creative ideas and I love to brainstorm.

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So go out now and enjoy this conference. I am sure you will meet all sorts of good and interesting people today. Most likely you will ask them the typical questions of what they do and how they see the markets and all that typical stuff that everyone talks about and I think no one really remembers that well as it all blends together.

But instead, how about for the next day and a half when you meet someone ask them: “What is your purple cow?” and, in addition, tell them about yours?

Thank you.