



DUVAL & STACHENFELD LLP

Keynote Address by Managing Partner Bruce Stachenfeld at IMN's 2014 US Real Estate Opportunity & Private Fund Investing Forum

Of all the regrets I have in life, one of my greatest is that I never had the chance to meet Peter Drucker before he died.

Have you ever heard of Peter Drucker? He is one of my intellectual heroes. He was able to look at the same world that everyone else was looking at but see things that others couldn't see.

He literally invented a science. And like all science, it is around you from the start but you just can't see it till someone shows you the way.

The science he invented was the science of "management". Before Drucker, people just ran things and sometimes good things happened and sometimes bad things – no one really delved too deeply into the "why" of it all.

But then along came Drucker – who made order out of chaos and realized that there were principles that, if followed, would increase the likelihood a business would be successful.

All those leadership books you sometimes read – all those amazing speeches you sometimes hear (like this one) – all of that thinking came from his groundbreaking analysis into the science of "management".

Drucker was a professor at Stanford University for many years. He died in 2005 at the age of 95.

Drucker's books are utter masterpieces to a real estate philosopher like myself. Indeed, there was an epiphany for me on every single page of his amazing book "Management".

Here are two thoughts from Drucker that hit me like a bolt of lightning when I read them. Honestly, my business – and even my whole life – was never the same again.

First – Drucker asks a question – he says – what is the "purpose" of a business?

The obvious answers I thought of were to make a profit or serve society or do good things for your employees or make your customers happy or something like that.

But Drucker says: The purpose of a business is to “*create*” a customer!

Wow – when you hear that it makes you tingle doesn’t it – you aren’t just going out to get customers – you are “*creating*” them.....and that is your true purpose.

Then he further peels the onion away with a second thought by saying that there are only two things that every business **MUST** do. Everything else is white noise. If you do these two things you have a chance at great success and if you don’t then most of the time the converse.

Can you think of what they are? I couldn’t till he told me – the two things are very simple:

To *innovate*
And to *market*

I remember reading all of this and feeling like I had been struck. Of course!!!!

If you don’t innovate then you are selling what everyone else is selling and you have no pricing power. By the laws of perfect competition (which we remember from college), your pricing power erodes as you are effectively selling a commodity.

And if you don’t market the product then people not only don’t know about it but they also don’t know why they should want it.

If you really spend a moment and think about all of this it is both exciting and liberating at the same time – it is so simple – to succeed in the business world you just keep in mind that the “purpose” of your business is to “create” customers and the way you do this is by “innovating” and “marketing”.

Consider Apple for a moment. What would Wozniak done without Jobs? He would have tinkered and tinkered till someone stole or used what he did or employed him or the industry just moved past him.

And what would Jobs have done without Wozniak? What would he have had to sell? Not a doggone thing.

They were the ultimate people in innovating and marketing.

And talk about creating customers. No one did that better than Jobs. I truly love his incredible statement:

Don’t give the customers what they want – show the customers what they should want

So – as you sit here this morning – I ask you – do you have as your purpose “creating” customers – and are you “innovating and marketing” to do it?

Let me take you a little deeper and try to apply this to the real estate world.

Did I introduce myself yet? I am Bruce Stachenfeld. I am the managing partner of Duval & Stachenfeld. We are a 70 lawyer law firm in midtown Manhattan, which focuses on real estate. Unlike our competition, we have focused our firm 100% around real estate – and we call ourselves The Pure Play in Real Estate Law. This means that our litigators focus on real estate litigation, our corporate lawyers focus on corporate real estate, our tax lawyers focus on real estate tax, etc. Our goal with this narrow focus is to obtain top status in our niche.

So now let’s apply Drucker’s brilliant insights to your business in the real estate world. Let’s consider what are you selling?

Imagine a row of buildings with identical products for sale – i.e. a row of gleaming “new” office buildings along the street. Or a row of “new” multifamily along a street – all the same – and all beautiful and pristine.

Pretty awful – huh?

It is all so beautiful – and it is all so perfect – and it is all the “same” as everything else. No customers are “created”. They are everyone’s customers just shopping among identical products. And all a halfway intelligent customer has to do is walk down the street and ask each landlord who will rent them space or sell them or rent them a condo for the lowest price. And pretty soon someone will put that on the internet and they won’t even have to walk down the street.

So the only thing helping – or hurting – the owner is the market going up or down. I don’t know about you, but I would hate to be in a business that the only thing separating me from success or failure is my crystal ball that can time the market and, for example, tells me that there will be enough Russian – South American – Chinese – billionaires to buy my condos when they come on line in two years.

As an aside, I think sometimes we trick ourselves into thinking we can really predict the future or the market, but we really cannot do that at all. Our minds simply resonate and pulsate with memories of when we were “right” and conveniently forget when we were “wrong”. For example, being honest, who in this room hasn’t been 100% “sure” that interest rates are going up next year for the past seven years?

Being successful cannot – should not – hinge on the ability to predict and time the market. If that is all you have going for you in your real estate business then I think you are destined for failure.

Let me give an example of a real estate innovation that was successful irrespective of market timing. This was by my clients Young Woo & Associates and Angelo Gordon, who built for-sale “office” condominiums at 139 Centre Street in the heart of Chinatown in New York City. This had never been done before – but my clients thought that there would be demand from Chinese buyers for this product.

I think the project was acquired in 2006 or 2007 and it came on line in 2009 – horrible timing. But what happened? It sold out like crazy. It was a home run project in the worst time of the world. Because it was unique and innovative. Consider that even the most brilliant minds in the real estate world cannot time the market – however, that made no difference when they were creating customers by innovating and marketing a cool new product.

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So now let me give you an innovation that I think, if properly marketed, could create some real live customers right here in New York City. It is in the area of office leasing. Who knows, this idea might “transform” office leasingokay maybe I shouldn’t get carried awaybut let’s see what you think.

I admit I heard a version of this idea from someone else mentioned casually and then I thought that – hey – this might really have some legs – so I am presenting it to you here and now.

It starts out by stepping into the mind of the customer – i.e. the tenant – and asking what does a tenant really want? Of course there are a lot of things but one thing that many tenants – especially law firms and professional service firms – want is the ability to cram as many people as possible into a location but in a manner in which they can work productively, happily and successfully. Indeed, a lot of us law firms think about this a lot. Rent is our second biggest expense – and boy would we like to be able to cram a lot of lawyers into our space without bumping them out.

So how about this – instead of leasing space by rent per square foot – instead start leasing space by Productive Employees Per Square Foot?

Think this through with me for a moment and let’s do some math. If you ask me to take 50,000 square feet of space at \$50 per square foot then I am paying \$2,500,000 per year. If I can comfortably fit 100 lawyers “productively” into the space then my law firm can achieve a certain level of profitability in that space. As the managing partner of my law firm that is how I would judge things, i.e. every lawyer I get in the space can bill X hours times Y billing rate, etc.

But if you lease me 40,000 feet at the same rent (i.e. \$50 per square foot) and I get the same number of lawyers in the space I achieve the same level of profitability – don’t I? But now I achieve that profitability for \$2,000,000 a year, which is \$500,000 a year less. Suddenly my business is \$500,000 a year more profitable isn’t it? Just because you – the landlord – made it so...

So far you are saying ummmmm, Bruce, this is hardly a revelation, but think deeper now...

You (if you are a landlord) just gave up \$500,000 to me – as your tenant – for free!!! You didn't take anything for it if you just are sticking with the old rules of measurement, i.e. by the square foot.

If you had marketed to me this idea that maybe that is the wrong measurement criteria maybe you would have gotten a portion of that \$500,000 windfall.

Maybe instead of just showing the space and letting the tenant and its architect figure out how to use it best you could do all of that and create a portion of the value for yourself?

To achieve this idea all you would have to do is this:

“Innovate” a bit – be creative in how to set up space so that more lawyers can comfortably work in it

“Market” the idea to law firm tenants like me that I should pay more for this kind of space

Then you will have “created a customer” (i.e. me) who will purchase office space based on Productive Employees Per Square Foot

This would mean you ignore the “market” and what everyone is doing and what everyone says they “want”. Instead – just like Steve Jobs – you would be showing the market, and your customers, what they should want.

And suddenly you have created customers who buy their space based on Productive Employees Per Square Foot.

If this is done successfully, then you would be making a lot more money from the same office building than you would have with the old measurement metric

Landlords used to “grow” their buildings by remeasuring the “size”. Now, if this idea takes hold, landlords can “grow” their buildings yet again by selling space based on the metric of Productive Employees Per Square Foot.

By the way, in case it is not obvious, if you like this idea it could easily apply to other real estate products, including any space that is leased or sold which, I guess, is just about everything.

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So my theme here is very simple

Don't compete in the real estate world by letting brokers or the market or others set the parameters. Use your brilliance and creativity to come up with ideas that no one else has done yet – market these ideas – and create some customers

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To conclude my words this morning, I do love doing this innovation stuff more than anything else. It is my hobby as well as my job – thinking of ideas is fun for me.

Before I finish I will give you a sincere offer. If you have a project that you are doing – or you are in a line of business in which your product seems a lot like your competition – and you are trying to figure out what to do next – and you want to come up with ideas to create customers by innovation and marketing, please come and see me. I would love to kick around ideas with you. And no charge for this!

Also – as many of you now know, we at Duval & Stachenfeld specialize in unusual conference gifts that usually tie to my speeches. This morning it should be no surprise that the gift today is *The Essential Drucker*, which is a compilation of some of his best works over 60 years.

So now here you are at this really great conference. As you go out the next day and a half, you will be blessed that there are all sorts of brilliant and connected and talented people here to meet and network with and learn from. As you circulate perhaps instead of the usual statements of “what are you seeing in the market” or whatever people typically talk about, maybe you could ask them how they are innovating, how they are marketing, and how they are creating customers?

Have a great day and please enjoy the conference.