FOREWORD BY DONALD J. TRUMP

# TRUMP STRATEGIES FOR REAL ESTATE

## Billionaire Lessons *for the* Small Investor


GEORGE H. ROSS

Executive Business and Legal Advisor to Donald Trump
Co-star of *The Apprentice*

WITH ANDREW JAMES McLEAN

# TRUMP
# Strategies
# for
# Real Estate

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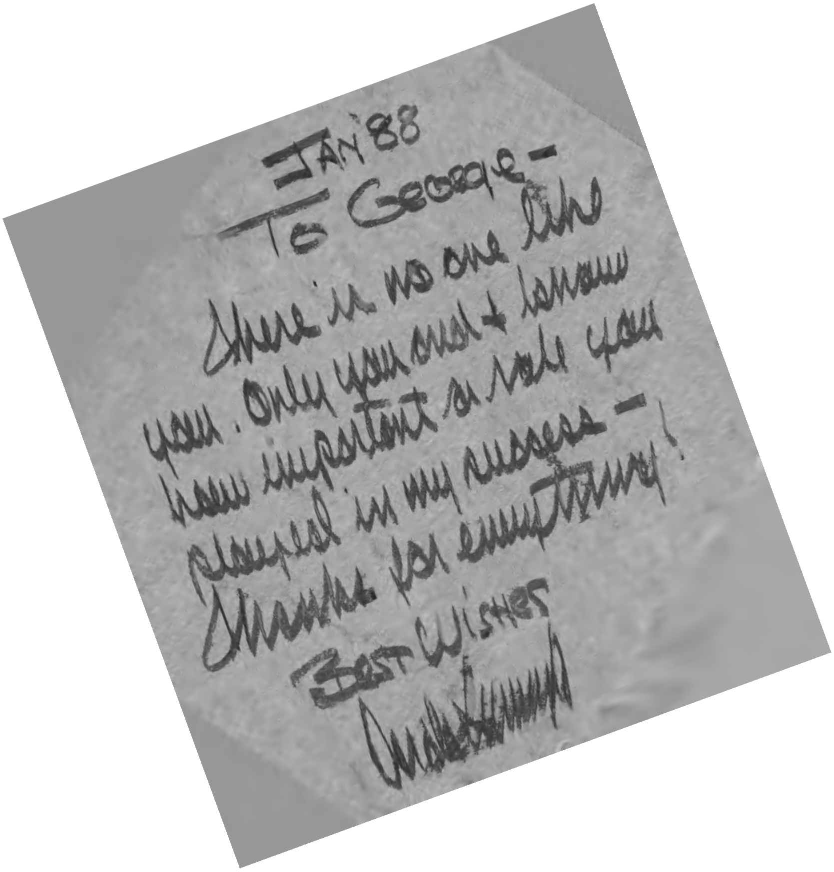
This book is dedicated to my wonderful wife, Billie
the solid foundation on which the happiness and success
in my life was built.

# Contents

# Foreword

by

Donald Trump




(In the author's copy of *The Art of the Deal*)

To George—

There is no one like you. Only you and I know how important a role you played in my success—Thanks for everything!

Best wishes,
Donald Trump

# Preface

I've spent 50 years as a lawyer, business advisor, and deal negotiator for real estate tycoons at the top of the world's toughest real estate market—New York City. I've represented or negotiated with great real estate minds like Harry Helmsley, Sam LeFrak, Bill Zeckendorf, and Donald Trump. It's been my good fortune to spend many of the best years of my career as Donald's right-hand man.

These days most people know me best from the TV show, *The Apprentice*, where Carolyn Kepcher and I help Donald make tough decisions about whom to fire and whom to keep. The show has been fun, but most of my work for Donald over the past 25 years has been in the world of real estate. I have been an advisor, negotiator, and lawyer on many of his biggest and most successful real estate investments, including the acquisition and renovation of the GM building, Trump Tower on 5th Avenue, the Grand Hyatt Hotel, and my personal favorite, 40 Wall Street.

Throughout my career, I have had the opportunity to acquire a great deal of knowledge and experience in real estate investing, which I hope to pass on to you in this book. For example, during a 10-year period from 1956 to 1966 when Sol Goldman and Alex DiLorenzo Jr. became two of the biggest property owners in New York, I personally bought 702 individual properties on their behalf. I have been intimately involved in many of New York City's most spectacular projects, such as the Chrysler Building and the St. Regis

Hotel, which I helped one of my clients buy. I've also had the opportunity to watch Donald Trump in action as he made some of the greatest real estate investments in history.

This book explains the strategies Donald Trump used to make his real estate fortune, and how small investors can apply them to investments of any size, right down to a one-family rental property. I describe how Trump implements some of his signature strategies such as creating luxury, perceived value, exclusivity, and attention to detail, which all come together to maximize the value of his investments. (This is why his properties earn far more money, square foot for square foot, than his competitors'.)

A number of the chapters focus on a particular real estate investment that I was directly involved in negotiating or advising Trump on. Using this example, I draw out the lessons and explain how the same strategies that Trump used to make huge profits on his deals can work for you—the small investor. Although Trump does things on a grand scale and his target market is usually an elite, luxury customer, Trump's basic real estate strategies will be of interest to:

- Anyone who is interested in owning or developing real estate
- Anyone unsure of how to negotiate a real estate transaction
- Anyone who is in real estate on a small scale but would like to do more
- Anyone interested in learning how Donald Trump does his magic

This is the first book on Trump's strategies for the real estate investor. Although it has a lot of nuts-and-bolts guidance and investing principles, the book alone will not make you a great investor. As I tell the students who take my negotiation course at New York University, "There's no way in 15 hours that I can make you an excellent negotiator. It is impossible! All I want to do is open your mind to the possibilities and the power of negotiating, and some basic techniques. Then, when you run into a specific situation you can go back to your notes, and say, how did George handle this? Or, what did he suggest?" You already have some ideas about real estate, but I've learned many things in my 25 years working with Trump and 50 years in the real estate business, that I'd like to pass along to you. If I am successful, this book will help you negotiate far better deals, arrange better financing, make better investments, and earn significantly more money in real estate.

I recall the day I first met Donald Trump in 1974. He entered my office at the law firm of Dreyer and Traub beaming with enthusiasm about a project he wanted to do with the old Commodore Hotel on 42d Street in New York City. He was just 27 years old at the time, and I was a senior partner known for completing complex deals, but I agreed to see him out of courtesy because I represented his father, Fred Trump. Fred had spoken enthusiastically about Donald's promise as a future star in the real estate world.

Donald laid out his incredibly complex plan for buying the huge, dumpy, rundown hotel next to Grand Central Station and turning it into a first-class, state-of-the-art business hotel. I told him it was a brilliant idea, but there was no way it would ever work, given the number of powerful people and governmental agencies he would have to convince to grant him major concessions. Nevertheless, if he was willing to pay the legal fees, I was willing to help him take a shot at it. We spent the next two years negotiating with railroad executives, city and state officials, lenders, and Hyatt executives making the deal happen. During those tumultuous two years, Donald and I developed a great working relationship and mutual respect. When he miraculously pulled off the deal, I was so sure he would be a huge success in real estate that I became his closest advisor and lawyer.

PREFACE

# How My Career Started

When I was young, growing up in Brooklyn, New York, I planned to go to MIT to be an engineer, but my father died suddenly when I was 16 and that plan died with him. At 17 I enlisted in the U.S. Army because they offered to send me to college. When I went on active duty, I was trained as a cryptanalyst (a code breaker) and spent most of my short army career in Washington, DC. The analytical skills, patience, and tenacity I learned as a code breaker helped me when I was faced with seemingly unresolvable real estate problems.

With the help of the GI Bill, I obtained my BA degree at Brooklyn College and entered Brooklyn Law School. Working three jobs concurrently and with the support of my working wife, I graduated and was admitted to the New York Bar in 1953.

While looking for a job, I saw an ad in the *Law Journal* for a law clerk. As luck would have it, the person who answered the phone was Bill, a friend from law school. He was working for Dreyer and Traub, a well-known real estate law firm. Bill said, "You don't want this job. You'll be nothing but a messenger and it only pays $25 a week." But I took it anyway! That was the inauspicious beginning of my legal career.

Although Dreyer and Traub was a law firm dealing primarily with real estate matters, they handled litigation as a courtesy for their clients, and Bill and I worked in the litigation department. Several months later there was an opening upstairs in the real estate acquisition and leasing practice, the place where real money was made. It was an excellent opportunity for advancement and Bill was slotted for the job. I was to take his spot in litigation. But before he could start, he was drafted into the army and recommended me for the real estate position. Once upstairs, I had the good fortune to apprentice to Murray Felton, a very tough taskmaster. He was so demanding that if I put a comma in the wrong place, I would hear about it for days. But Felton was a superb technician and highly regarded in the world of real estate attorneys. I knew that working with him was a great opportunity to learn the intricacies of real estate law from a perfectionist. So I soaked up every bit of helpful information I could from him. I became adept at drafting leases, real estate documents, and participating in all types of transactions. My prior litigation experience added to the perception that I was a competent, though young, real estate attorney.

## Learning the Real Estate Business

In 1955, one of my clients asked me to draft a commercial lease for him even though he was to be the tenant. Usually, the landlord's attorney drafts the lease, but in this case the landlord told my client to have his lawyer prepare the lease. So I drew up the lease and inserted a provision stating that the tenant didn't have to pay any rent before the landlord made a certain elevator operational. My client moved in and, as it turned out, the elevator inspector for New York City refused to accept the elevator repairs the landlord made, insisting that only a brand new elevator would get his approval. The elevator stayed out of operation for a very long time, but throughout that period my client was still able to carry out his normal business operations.

The owners, Sol Goldman and Alex DiLorenzo Jr. had a "tenant in possession" utilizing the premises for its normal business operations, but because of that clause in the lease, the tenant was not paying them any rent! Although the landlords were very unhappy they were helpless.

In the mid-1950s, Goldman and DiLorenzo, who were both multimillionaires, had decided to invest in real estate on a huge scale. I had decided to leave Dreyer and Traub because I had been told that there was no possibility for me to become a partner in the firm. I happened to mention my impending departure to Sol Goldman and he called me a few days later and said, “George, Alex and I would like you to be our counsel.” I said, “Why me?” He said, “Well, we already paid $90,000 in the form of lost rent just for the privilege of knowing you! We’ll make it worth your while if you say yes.” I accepted their offer.

## Every Problem Has a Price Tag

Very quickly I learned something that every real estate investor should understand: There is a huge difference between the legal aspects of real estate and the business of investing in real estate. I had to restructure my whole way of thinking. Whenever I discovered a legal problem with a real estate deal, Goldman would say, “Is it serious enough to blow the deal?” If I said, “No.” Then he would say, “How much can I get off the price for the problem?” Most lawyers simply advise their clients not to do a deal if they find legal problems; lawyers cannot or will not make business recommendations for their clients. Goldman forced me to think like a businessman, not just a lawyer, and realize that almost every problem has a price tag. He forced me to look at legal problems strictly as a way of improving the deal. He’d say, “What can I get if I overlook this problem?” To find that answer, I had to dig into the problem.

For example, Goldman and DiLorenzo contracted to buy Harborside Terminal in Jersey City, New Jersey, from the railroad that owned it. The property consisted of a huge cold storage warehouse of almost two million square feet abutting the Hudson River, right across the river from downtown Manhattan. The purchase price seemed reasonable even though it was to be an all-cash deal. However, the title report contained an exception for possible claims of the State of New Jersey to a strip of land that the warehouse straddled. It became clear to me why the railroad was having difficulty finding a buyer. No lawyer would let a client buy the property with such a defect and certainly no bank would place a mortgage on it. The problem related to land under water that was filled in sometime in the 1800s. A law was passed stipulating that if the land under water was filled in by the adjoining landowner before 1849, the landowner had good title to it. If it was filled in after 1849, the State of New Jersey owned it. I couldn't prove when it was filled in and who filled it nor could the State of New Jersey.

I told Sol we should get a price reduction and also convince the railroad to take back a long-term purchase money mortgage at a low interest rate since no lender would make any loan because of the title defect. The railroad agreed to reduce the purchase price by $400,000 and to take a sizable mortgage, so we closed the deal. Several years went by but the title impediment still stuck in my craw. I was certain that the State of New Jersey must have encountered the same problem in the past since much of the land abutting the Hudson River was filled-in land. I contacted the State and learned that they were aware of the problem and rather than sit with a dubious claim they had passed a statute giving the State the right to give up its claim in exchange for the value of their interest in the disputed land. Following the procedure outlined in the statute, we paid a minimal amount and received a quitclaim deed to the land in dispute from the State of New Jersey. As a result, the property appreciated in value so much that a bank made a first mortgage loan in an amount exceeding the total purchase price paid by Goldman and DiLorenzo.

From 1956 to 1966 Goldman and DiLorenzo *were* New York real estate. When I arrived at Goldman and DiLorenzo in 1956, they owned 18 properties; when I left in 1966, they owned 720. I negotiated and handled almost all of these purchases by myself with very little supervision from them. We were buying Manhattan ground leases by the dozen, warehouses in New York harbor, and multimillion-dollar office buildings. We were dealing in big numbers, and much of it was done with cash. Many times I walked into a closing on a property with a certified check for millions of dollars in my wallet. I was also given a standing million dollar deposit by Goldman and DiLorenzo with which to negotiate. Goldman and DiLorenzo would tell me what type of deal they wanted and my job was to make it happen. They were not anxious buyers, so if I didn't think the deal met their terms, I would kill it and go on to the next one. That's what enabled them to acquire so much real estate so quickly. During that 10-year period, I bought the Chrysler Building, the St. Regis Hotel, the land under the Plaza Hotel, Harborside Terminal in Jersey City, and numerous ground leases on their behalf. (A *ground lease* is a long-term lease for land on which a building sits, and gives the tenant all the rights and obligations of operation and ownership except title to the land.)

Goldman and DiLorenzo's appetite for real estate was voracious. They had excellent financing connections which enabled me to close transactions quickly. As their lone lawyer and business representative, I had almost unlimited authority to negotiate but not to increase the purchase price. I negotiated with Harry Helmsley, Bill Zeckendorf, and Morris Karp to name a few. These were all the big names in New York real estate at that particular time—pretty heady stuff for a 30-year-old lawyer.

For the first few years I worked for Goldman and DiLorenzo, I was in way over my head. At Dreyer and Traub, I was handling closings on single-family homes in New Jersey. I had never done a contract and closing on any office building of any size. Now I was thrust into an arena involving the purchase and operation of huge office buildings. I really had no prior training or experience. Yet everyone thought, because I was so young and represented these millionaires in huge transactions, I must be brilliant so they treated me as an equal. I knew how green I was, but I wasn't going to dispute their assessment of me! I learned as fast as I could from everyone I came in contact with, including all the people on the other side—the lawyers and other professionals and the real estate moguls themselves. I concentrated on what they did, how they did it, how they acted and reacted in certain situations, and anything else that would fill the void of my ineptitude. I was like a sponge absorbing every bit of information I could. Before long my crash course in real estate paid off and I began to give my clients well-reasoned opinions as to which deals were good and which were not and what price to pay. This gave me a unique combination of talents. Most lawyers don't know the business of real estate, and therefore, they are not equipped to make business decisions. They are ready to render advice on any legal issue, but leave the business decisions to their client.

## Radio Days

Any good lawyer will make lots of money while practicing law, but since lawyering is a service business, the income stops when you step down. I recognized the need to invest in some enterprise that would be of value in my later years. In 1966, my brother-in-law, Martin Beck, was leaving the Katz Agency, a big name in the business of selling radio time. He suggested that we look for investment opportunities together. He thought radio broadcasting on Long Island would be profitable. I told him, "I don't know anything about the radio business." He said, "I know all about radio but I don't know how to raise the capital necessary for a venture." I told him, "You find and run the stations and I'll find the money to make it happen." In 1966, we formed Beck-Ross Communications Corporation and bought our first radio station in Long Island, WGLI, for approximately $450,000. Marty knew how to make money in radio broadcasting. Using the profits from WGLI and by expanding our financial contacts, we embarked on a plan of expansion. FM broadcasting was in its infancy but the superiority of the sound made it an attractive prospect. We purchased several other stations—both AM and FM—increased their market share, and then sold them at huge profits. In 1986, Marty and I bought out all of our investors for 25 times their original investment. In 1987, we were faced with a decision that many investors confront at some time, to expand the business or sell out to someone who would. We chose to take a substantial profit and leave the expansion to the buyer.

But the radio business was only a sideline to my law career. In 1966, after 10 years with Goldman and DiLorenzo, my reputation had grown to the point where I could have received a partnership with any quality law firm with a real estate department. I opted to return as a partner to my old firm, Dreyer and Traub, where I was being accepted as a senior partner. I realized that since only two young attorneys had become new partners in the past 10 years and the old partners were reaching retirement, it would be my firm within a few years. That's exactly what happened. By the early 1970s, I became one of four senior partners running one of the best real estate law firms in New York with as many as 120 lawyers. I led that firm for more than 20 years.

Eventually, I got tired of dealing with partnership politics, gave up the active practice of law, got a severance package, and joined the Edward S. Gordon Company where my role for the next 10 years was to supply real estate expertise to major clients like United Technologies, IBM, the *New York Times*, and AT&T.

## How I Came to Work for Donald Trump

Although I left the active practice of law in 1987, I remained friendly with Donald Trump, and though I had worked with him on many of his most successful projects, I was no longer his lawyer. When the New York City real estate market tanked in 1990, Trump hit the rocks. It was not due to a lack of business acumen; rather, his phenomenal success had created an air of invincibility. Because he had been so incredibly successful, he began to think that any business he touched would turn to gold.

The banks would throw money at him. If he asked to borrow $60 million for a building, they gave him $80 million. When the bottom fell out of the New York City real estate market, he was vastly overextended and was over $990 million in debt. He owed so much money that the lenders knew if they forced him into bankruptcy it would have a disastrous effect on the real estate market. They had many bad loans that they didn't want to write off. So they came up with a plan that would enable him to work his way back by agreeing to accept a substantial reduction if the loans were repaid by a certain future date.

Even though I was no longer a member of a law firm, I wanted to help. I told Donald that if he ever needed legal advice or counsel while he was in trouble, I would be happy to do it for him without charge. He was impressed and asked me why I would do that. I said, "Donald, I think a lawyer has a responsibility to represent a client when he's down, not only when he's on top. I'm here if you need me." Trump never accepted my offer because it's not his style to get something for nothing. But I'm sure he appreciated the gesture. My philosophy has since paid off in spades—with Donald Trump, loyalty goes a long way.

In the mid-1990s, Donald had two deals going, the new Nike Building adjoining Trump Tower and 40 Wall Street. Both were plagued with problems because of the lawyers involved, and very little was getting accomplished. Donald knows when to use delay tactics, but he also hates deals that drag on and on. So he hired me to eliminate the roadblocks and get those deals done. While I was working on them, I told Donald that I was bored with my life at Gordon and was planning to retire. He asked me to join the Trump Organization on a full-time basis. He said, "I've got a lot of great things going and you'll have fun." We quickly agreed on terms (I only work four days a week) and 10 years later, I'm still an important part of the Trump team.

My title is Senior Executive Vice President and Senior Counsel for the Trump Organization and my primary function is to give Donald Trump business and legal advice. I offer my opinion as to the feasibility of his proposed projects, which he is free to accept or reject. He likes to bounce things off me before reaching his own decision. He knows that I will call it like I see it and give him an unbiased opinion. I'm currently responsible for developing many foreign investments for Donald and supervising the leasing and operation of 40 Wall Street and Trump Tower.

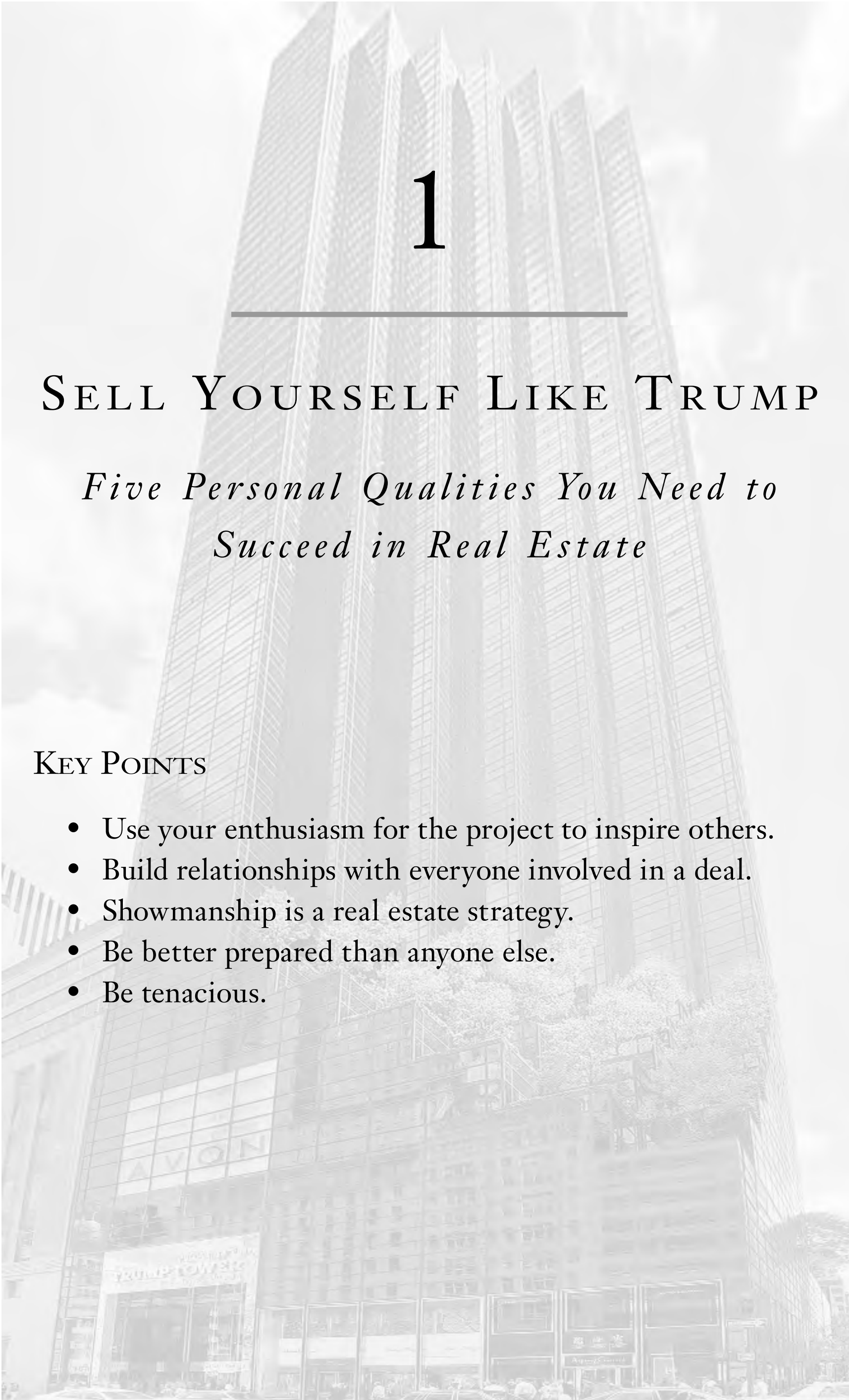
Additionally, I teach a course at New York University on negotiation. Negotiation is a subject that I have made a study of throughout my career, because it is such a critical part of real estate success. I could easily fill a book on this subject. For a discussion of some of the principles and techniques, used by Trump, that I think are most valuable, see Chapters 3 and 4.

Trump has been a great man to work for. In 10 years, he has never once asked me where I'm going or what I'm doing. That's the kind of trust we have. When he gave me responsibility for 40 Wall Street, I took the building from where it was—a one-million-square-foot nearly vacant structure he purchased for $1 million—to where it is now—a thriving office building worth in excess of $350 million. After 40 Wall Street had been rented and had become extremely profitable for Trump, I said to him, "I think I'm entitled to a bonus for 40 Wall Street." Trump's reply was, "How much do you think you're entitled to?" I gave him a figure. He said, "You've got it." It's this kind of recognition that makes it a pleasure to work for him.

Fred Trump once said to Donald when he needed a lawyer, "You would be hard-pressed to find a wiser, more loyal, or a better advisor and lawyer than George Ross." I'm delighted Donald took that advice and gave me the opportunity to work with a true real estate genius. Now I hope to pass on to you some of the powerful investing strategies I've learned from some of the greatest real estate minds in the business.

## ACKNOWLEDGMENTS

My gratitude to Donald J. Trump for becoming such an important part of my life as a friend and for giving me the unique opportunity throughout my career to help turn his visions of spectacular projects into realities.




# 1

## Sell Yourself Like Trump

### *Five Personal Qualities You Need to Succeed in Real Estate*

Key Points

- Use your enthusiasm for the project to inspire others.
- Build relationships with everyone involved in a deal.
- Showmanship is a real estate strategy.
- Be better prepared than anyone else.
- Be tenacious.

Grand Hyatt

DONALD TRUMP BECAME a billionaire in real estate by making a series of incredibly creative and successful investments in New York City properties. He is now the largest real estate developer in New York and is widely acknowledged to be one of the most brilliant real estate investing minds anywhere. For example, in the early 1980s, with the building of Trump Tower on 5th Avenue, he single-handedly created the market for high-end luxury residences in New York City. He continued with a string of successes and in 2003, 9 of the 10 highest selling apartments were in Trump buildings—apartments that sold for millions of dollars each.

What can the small real estate investor learn from a billionaire developer like Trump? After advising Trump on many of his biggest investments over 25 years, I'm convinced that small investors can successfully use many of the same principles that earn him millions. It's not the scale of your real estate investment project that counts. Whether you are investing in a single-family rental, a four-unit rental, or a multimillion-dollar office building makes no difference to the financial success of your particular project, what's important are the real estate investing strategies used to acquire and develop the property, and how you design and market the property to buyers or tenants. Many of the same basic principles that work for one of Trump's $300-million skyscrapers work just as well for smaller properties. Anyone interested in investing in real estate can benefit from a study of Trump's real estate investor strategies.

For example, you can't make big real estate investments—or really profitable small investments—without projecting certain personal qualities that inspire confidence in others, and make them want to help you or to see things your way. The key personal qualities you need are enthusiasm, relationship-building skills, showmanship, preparation, and tenacity. Donald Trump has these qualities in spades as he demonstrated on his first big real estate deal, the transformation of the dilapidated Commodore Hotel on 42nd Street in New York City into the magnificent Grand Hyatt. Remarkably, Trump used very little of his own money in this transaction, yet later sold his half interest to Hyatt for $85 million.

This chapter will describe how these five key personal qualities helped Trump make the Commodore-Hyatt deal work, and how small investors can use these same qualities in their own real estate investments to negotiate better deals, sell properties for more money, and dramatically improve real estate profits.

## INVESTING CASE STUDY

### Trump's Commodore-Hyatt Project

This real estate investment was a monster as far as complexity was concerned. It was 1974, New York City was struggling to survive, and Trump decided that this was a great time to buy a huge, dilapidated, nearly empty building on 42nd Street next to Grand Central Station. Like many of the best real estate investors, he looks at problem properties and sees opportunities. Trump's plan was to convert this old building, the Commodore Hotel, into a 1,400-room first-class convention hotel—the largest since the New York Hilton was built 25 years earlier.

When 27-year-old Donald Trump explained his grandiose idea to me during our first meeting, I told him that based on existing conditions he was chasing an impossible dream that would never happen. I thought the idea was brilliant, but it was totally unrealistic given the economic environment and the huge cast of characters who would have to embrace a set of entirely new concepts for the idea to work. Trump would have to win major financial concessions from:

1. Penn Central, a bankrupt railroad that owned the land on which the Commodore Hotel was built;
2. New York City, which was facing bankruptcy;
3. The State of New York, which had no money to contribute to any venture;
4. A lender who was holding many defaulted loans on New York real estate;
5. A major hotel chain that was not pursuing new facilities in New York City since tourism and occupancy rates were extremely low; and
6. Existing tenants occupying the building.

The deal involved successful negotiation of several treacherous interconnected transactions. If Trump failed to conclude any one of these transactions, it would sink the entire project. Using the five personal qualities outlined in this chapter he had to:

1. Obtain an option to buy the Commodore Hotel from the Penn Central Railroad for $12 million dollars;
2. Convince the representatives of Penn Central Railroad to turn over the $12 million purchase price to New York City, which was owed $15 million in back taxes from the Penn Central;
3. Convince New York City to accept the $12 million to cover $15 million in back taxes and agree to the creation of a long-term lease that would give the city a share of profits in lieu of future real estate taxes;
4. Convince the Urban Development Corporation, a New York State Agency, to accept title to the property, then grant a long-term

lease of the property to Trump and to use its right of eminent domain to obtain possession from existing tenants;

5. Find a major hotel operator willing to participate in the ownership and operation of the new hotel to give credibility to the creation of profits in which New York City would share; and
6. Find a bank willing to lend $80 million to cover all of the costs involved in purchasing and developing the property.

This was as complex as it sounds. Something like this had never been done before.

To jump ahead to the end of the story, Trump pulled it off, convincing all these parties to work with him, using his enthusiasm, relationship-building skills, showmanship, preparation, and tenacity. In September of 1980, the Grand Hyatt opened—and it was a great success from day one. The renovated Hyatt helped revitalize the whole Grand Central Station neighborhood in New York City, which in turn played a major role in reversing the failing, bankrupt image of the city in the 1970s. By 1987, gross operating profits at the Hyatt exceeded $30 million annually. Years later, after recouping his modest cash investment in the property, Trump sold his half interest to Hyatt for $85 million.

Here's how Donald Trump used critical personal qualities to clinch that monumental real estate deal. You can use the same qualities in your own dealings regardless of their size or complexity.

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## Use Your Enthusiasm for the Project to Inspire Others

Enthusiasm is a crucial element of the investment game because your success depends largely on capturing the imagination and securing the cooperation of key players—buyers, sellers, lenders, tenants, contractors, and others. If you're not enthusiastic about your real estate investment idea, there's no way you can get someone else to sign on. Remember that people will initially be skeptical of whatever you say. So be like Trump, sell hard. If you can maintain your level of commitment and enthusiasm in the face of initial doubts, you've taken the first step toward getting the support you will need to succeed. Trump knows that *enthusiasm is contagious.*

For example, Trump's enthusiasm for the Commodore-Hyatt project and the way he envisioned it benefiting the entire city of New York were boundless. He communicated his vision over and over to all of the people who were involved in the various governmental agencies, including the mayor's office and the railroad. He argued that this one project could help turn around the entire blighted midtown Manhattan area. They all agreed that it was important to do something about this eyesore, the Commodore, because of its critical location next to Grand Central Station. Trump's enthusiasm convinced them that he was the only person capable of putting all the pieces together. For example, he told the city, "Forget real estate taxes and concentrate on the money you'll earn from room taxes, income taxes paid to the city on the salaries earned by the employees working in the new hotel, and the profits from the hotel operation." (Trump offered to make New York City a partner in the profits.) "Think about how the new construction will bring desperately needed jobs to New York and reestablish New York City as the capital of the world."

Trump's enthusiasm was the catalyst for getting key people, whose support he needed to achieve success, interested in the deal and to getting the city to embrace the idea. He prepared charts and graphics showing the dreary existing conditions of the area, the likelihood of an extended recession in property values leading to further erosion of the city's tax base. He explained, "This is what you've got now but here's what I can do for you." He would then display a dramatic color rendering of the building as it would appear when renovated and sell this as the linchpin of revitalizing the Grand Central area—which in turn was the cornerstone of the reconstruction of the image of New York City. All he initially sought was the city's acknowledgment that this was a great idea coupled with a loose commitment to cooperate in bringing it to fruition, if they got everything they wanted. He never talked numbers with the key players in this deal until after he got an initial expression of interest and support for his plan. He knew that talking numbers too soon would give people a reason to say no to his plan. It's a valuable lesson for you to remember in any real estate investment of yours: Enthusiasm (and focusing initially on the large outlines of a deal rather than the financial details) can overcome many obstacles.

### *How Small Real Estate Investors Can Use Enthusiasm*

The Hotel Commodore conversion was a huge project that took over two years and 23 drafts of a complicated and intensely negotiated ground lease to finish. But no matter what the size or complexity of your real estate project, at various stages of the transaction you'll need to convince other people to help you, and do what you want them to do. This takes enthusiasm and perseverance. Share with the seller, your lenders, contractors, and others what you envision for the property you want to buy or renovate. Tell a great story about how you found it, what your inspiration was, and the difficulties you have already overcome. Play up what you see as its best or most unique features. Trump knows that people like to be excited. You just have to find creative ways to excite them.

If you're not enthusiastic, the people you're trying to convince to lend you money, sell you a property, or invest in your partnership are not going to stick their necks out. But if you can tell a great story about your investment idea, if you are articulate and enthusiastic about the opportunity you are offering others, you are on your way to developing the requisite rapport with buyers, sellers, lenders, or other decision makers.

## Build Relationships with Everyone Involved in a Deal

The success of any real estate investment or any business deal, for that matter, is not strictly a matter of dollars-and-cents. A lot of it comes down to personal relationships—your ability to forge strong cooperative relationships with all parties, whether they are directly or even tangentially involved. Trump does this by taking the time necessary to gain insight into the people he is dealing with—who they are, what they do, how they do business, who are their family members or friends, and if appropriate, what their hobbies are. If you can establish a rapport and a feeling of mutual trust it invariably makes for an easier negotiation and a faster, more amicable conclusion to any problems that arise. The principle here is, "No one intends to buy a bucket of trust but they will pay for it if it's delivered." Give people reasons to trust you by building a relationship with them, and you will be laying the foundation for long-term real estate investing success.

The reason you have to build relationships, especially at the beginning of a real estate transaction, is that people are naturally suspicious of others. Until you have built up a level of trust, it is likely that what you say will be somewhat discounted.

One way to build a good relationship is to assume that the present transaction you're working on is only the beginning of negotiating many deals with your counterparts. Work hard to create the impression of being "a nice person to deal with." Some of Trump's best deals were the result of recommendations from adversaries with whom he had past dealings. Leaving pleasant memories is the best personal advertisement in any real estate transaction.

Here's a great example of Trump's relationship-building skill in action from the Commodore-Hyatt deal. Trump had never met Victor Palmieri, an executive with Penn Central Railroad, which owned the Commodore Hotel, but Trump knew Palmieri would have to play a key role if Trump's idea were to become reality. With full confidence in his project and his salesmanship, Donald Trump called Palmieri, introduced himself, and said, "Give me 15 minutes of your time and we can reverse the decline of the City of New York and increase the value of your Penn Central holdings." In the meeting, Trump got Palmieri's attention and a solid working relationship was created. Without Trump building a strong cooperative relationship with Victor Palmieri, the decision maker for Penn Central, he would have never had the opportunity to purchase the Commodore from Penn Central, let alone get Palmieri's help in pressuring the city for its cooperation, which became critical later on.

Small investors tend to think that they have no basis for building a personal relationship, and therefore no negotiating power. Negative thoughts create their own problems. You may be dealing with someone who's much more successful, or who works for a large, impersonal bank. You may think they can't (or won't) relate to you, but that's not true. You can relate to each other as human beings. Look for anything at all you may have in common.

If you're going into a meeting with someone, learn as much about them beforehand as you can. Ask someone else about them, find out what they know. If you're going to meet with an owner of a rental property, speak to one of his tenants beforehand. Ask questions, such as, Is it a good property? What do you think about the landlord?

Now you have information that may help you establish rapport with the owner, and probably some ammunition that will be useful when you enter into negotiations.

## Showmanship Is a Real Estate Strategy

Once you have conviction about how your real estate investment can benefit not just you but the other people whose help you need, and you've started to build relationships, the next step is to find concrete ways to communicate your vision to your potential real estate partners. Anyone who is involved with a real estate transaction, especially a fixer-upper project or new construction, has undoubtedly spent a lot of time and effort thinking about the details of it: how it will work, why it will be good for everyone involved, how it will be successful, and what the end reward will be. The challenge now is to condense everything that you've done and thought into something that you can show or tell other people so that they get the same degree of enthusiasm. It's difficult, but that's your challenge. Keep in mind that other people whose help you need are starting off cold. They haven't spent the weeks or the months living with this project that you have. To get them to share in your dream, you have to come up with a way of making it interesting to them. This is called *showmanship*—and it is one of Trump's signature traits.

One great example of Trump's showmanship was his hiring of Henry Pearce, a dignified, New York City banker with decades of experience, to assist him in obtaining the financing for the Commodore. Trump was only 27 and he knew bankers would be skeptical of lending so much money to someone so young. Showmanship, in this case, meant conveying a powerful symbol of reliability and safety to the conservative bankers, and this is exactly what Trump did when he sat down at the table with Pearce at his side. Instead of seeing a 27-year-old asking for millions of dollars, the bankers saw Trump with someone they had been dealing with for years—even though the reality was that he was just a temporary hired gun for Trump.

An even better example of Trump's showmanship is the way he used flashy architecture to get people excited about the Commodore-Hyatt deal. Using eye-catching, conversation-starting architecture is one of Trump's signature tactics, and it's something every real estate investor, no matter how small, should consider doing. A good design and some flashy ideas from an architect can easily add far more value to a project than the cost of the architect's fee. If you can create something impressive and distinctive, you will be able to get premium rents or a premium selling price for your property.

Trump felt that the Commodore was going down hill because it looked so dark and dingy. His plan was to build a new façade directly over the building's old skeletal structure in glass, or bronze if that was feasible, otherwise he would demolish the existing building and build a new one. It had to embody "showmanship"—a building with sparkle and excitement that would make people stop and notice. He hired a young, talented architect named Der Scutt, to help him realize this vision.

Next, Trump used showmanship to get New York City to agree to a massive 40-year tax abatement in order to make this deal work, and instead, take a share of the profits. This was a critical piece of his plan. But Trump knew that convincing the politicians and bureaucrats in New York City government to go along with this plan would be extremely difficult. To imagine that the run-down Commodore Hotel, mostly vacant and mired in unpaid property taxes, could evolve into one of the busiest and most luxurious hotels in

Manhattan was a tough proposition for anyone to believe. He had to give the Board of Estimate something physical to look at, to touch, in order to make his vision real.

Trump had the architect come up with sketches and renderings that he could use in his presentations to the city and the lenders. He told Der to make it appear that he had spent a huge sum of money on the drawings. A beautiful presentation can be very impressive. It worked. People began to believe in the idea.

### *How Small Investors Can Use Showmanship*

There are plenty of inexpensive ways to use showmanship in small real estate investments. For example, instead of showing prospective buyers a vacant piece of land, show them a rendering of what the project will look like after it is built. Hire an artist if necessary. It may be worth investing in a scale model of your property so that buyers can visualize the final product.

Also, how you dress, your appearance, says something to the people you're trying to influence. Donald Trump always dresses in a way that will make a good impression on the people whose help he needs. To spearhead a luxury hotel deal in the heart of Manhattan, a pinstripe suit and silk tie are the safest bet. But because appearance communicates adaptability as well as respectability, Trump knows that khakis and a polo shirt are appropriate for golf course negotiations, or a hard hat for on-site construction projects. Your dress should be chosen to give people confidence that you can do what you say you're going to do.

Think about the people whose help you need to make your investment successful. When meeting with a bank you may want to wear a suit—but very high heels or excessive makeup might compromise the impression you want to make. If you're meeting with a contractor, try to keep it casual, don't overdress, but try to wear a casual outfit that still looks impressive. First impressions make a powerful statement.

## Be Better Prepared Than Anyone Else

Most people don't realize that there's a lot of preparation involved in getting people to respond in the way you want them to respond. The key is anticipating problems and questions that other people will ask about your proposal and having answers ready. Donald Trump spends significant amounts of time preparing for important meetings in which he needs to persuade a key person or group.

Here's an example for small investors: You want to sell a home to a potential buyer. The buyer says that he wants to buy the house, but his purchase will be subject to getting a mortgage. Here is where your planning pays off. If you have already done your homework and contacted a bank, which has agreed to make a mortgage on the house for x amount of dollars, you anticipated this potential problem. Now you can tell the buyer, "I already have the ideal bank for you to go to." I have now directed you to one source, instead of you going to ten sources and getting confused.

You could be selling a house with a very old refrigerator, and you don't want to buy a new one. You anticipate a buyer's objection by saying (if the objection comes up), "I'll guarantee that if the refrigerator doesn't last a year, I'll buy you a new one." You have anticipated a potential problem. So instead of the buyer asking for a discount because he wants a new refrigerator, you simply give him a one-year warranty. Whatever the situation, whether you are buying or selling, try to anticipate any likely potential problem.

You do this by taking an objective look at what it is you're trying to accomplish. You say, "If I were the buyer, what would I find objectionable?" Put yourself in the shoes of the other party and raise the questions they would raise, then find the answers to the questions. There's always some wrinkle in the transaction, something that you will need to address so that you can quickly move on so the other party doesn't dwell on it. Keep your goal in mind and think through any potential obstacles and have possible solutions ready.

If you are preparing for a meeting, you need to think about how you can use the meeting to build rapport, but also focus on what your objective is. Perhaps you want others to invest; maybe you want them to accept your capabilities, whatever the case you must prepare for that meeting: What you're going to say; what you're going to do; and who the audience is; who you'll be playing to. This way you can have the maximum effect. If you don't prepare, you'll fall flat.

There was a researcher named Ziff who made a study of negotiation. He expanded a concept called *Ziff's principle of least effort*, which proved that most people will put the least amount of effort in a transaction that they can in order to proceed. When I read about the theory, I immediately realized it was true in real estate. Most people are not willing to put in a lot of time to prepare before making big real estate decisions, and you can make this work to your advantage if you are willing to do what most other people won't. Knowing that others want to put in very little effort, successful people like Trump take the role of filling the gap and doing all of the effort that's required in a transaction. They do it on behalf of the other people involved in the transaction who don't want to do it. Trump always does more preparation than other people are willing to because it gives him greater control in a fluid situation.

For example, if Trump is creating a plan to attract investors in a property, knowing what he does about human nature, he's not going to expect you to spend a lot of time and effort reading the details. He'll do all the mathematics for you in the plan and at the bottom he'll write, in big type, "Return on your money: 20% a year." Most people are going to go right to that "20% a year." They're not going to delve into the details. They're enamored with the 20%.

When Trump has a person interested in a transaction, he will do everything he can to make his involvement in that transaction easy. For example, "I'll do this so you don't have to; I'll send you this; I'll take care of that phone call." You want to keep other people, as much as possible, *out* of the nitty gritty of the actual transaction, so you can control the details. Take advantage of the fact that most people are not willing to spend time on preparation.

Trump spent huge amounts of time preparing for the New York City Board of Estimate, which first met to approve his entire Commodore transaction in late December 1975. One of the things he did a week beforehand, was to go to Victor Palmieri, the executive from Penn Central Railroad who owned the Commodore Hotel and explain to him that if he wanted the city to take our abatement case seriously, we needed to get out the message that the Commodore was going downhill fast and that it was not going to survive much longer. Palmieri agreed with him. On December 12, Palmieri made a public announcement to the media that the Commodore Hotel had lost another $1.2 million during 1975, was anticipating worse losses in 1976, and as a result intended to shut down the hotel permanently no later then June 30, 1976. This announcement by itself didn't change the Board of Estimate's mind, but they agreed to hold several more meetings with Trump. However, from the beginning of negotiations, the single event that nobody in city government wanted to see was the Commodore closed down and boarded up. So the news release prior to the December meeting helped get the Board of Estimates worried about a closing of the Commodore. Then, next spring, on May 12, 1976, one week before the Board of Estimate, for the fourth time, was to vote on Trump's tax abatement, Trump got Palmieri to announce that Penn Central would permanently close the Commodore in six days. Palmieri explained to the media that the occupancy had decreased from 46 percent the previous year to 33 percent, and that operational losses for 1976 were projected at $4.6 million.

Adding fuel to the fire, on May 19, was the front-page news in all the local newspapers about the remaining tenants being forced out of the Commodore. The news featured stories about the hundreds of employees who were now looking for work, and the dismay the local retailers were feeling in anticipation of a boarded-up Commodore Hotel.

On May 20, thanks in part to Trump's strategic preparations for his four meetings with the Board of Estimate, the Board finally voted unanimously to give Trump the full tax abatement deal he had sought. Over the 40-year term, the tax abatement saved him tens of millions of dollars. This is typical of how Trump thinks strategically about preparing for critical meetings. He will go to great lengths to create conditions that will work to his favor during the meeting.

### *How Small Investors Can Use Preparation to Their Advantage*

Suppose, for example, you need a temporary construction loan for a fixer-upper. Before you ever ask for a loan, talk to other people who have received construction loans. What did they have to do to qualify? What kind of fees and rates did the lender charge? Were they happy with the lender? Do as much networking as you can to find people who have direct experience and are knowledgeable about the kind of loan you want, and who can give you the inside story on what it takes to get that kind of a loan with favorable terms. Getting information from insiders or people who know more than you is the best kind of preparation you can do for an important meeting or negotiation.

Preparation is important in all phases of a real estate investment. It shows up in how well conceived your plan for fixing up and selling a property is, and how many contingencies you have prepared for; it's in how you present yourself to a lender and if you have properly profitable projects have been those such as 40 Wall Street (to be discussed later in the book) where he picked up a property for very little because a string of earlier investors had failed with the property—and only he had the tenacity and vision to make it work. Everything that is really successful was the result of hard work that nobody else wanted to do. The only thing that held the whole Commodore-Hyatt deal together was Trump's tenacity—he was like a hungry pit bull.

For example, during early negotiations with New York City over the Commodore Hotel, one of the city's key concerns was who would run this new hotel. They said, "You say you're going to pay us rent, and that you're going to give us a share of the profits, but what do you, Donald Trump, know about running a first-class hotel?" And at first, he didn't have an answer. But he said, "All right, I'll go out and get a major player to run it." And the city responded with, "Okay, if you bring in a major hotel operator, we'll go along with it." That tentative commitment from the city gave him a strong position from which to negotiate with a hotel company, and he ended up bringing in Hyatt as a partner. Once again his tenacity helped him turn a roadblock into an additional benefit for this investment.

One of the biggest roadblocks the small investor will encounter is the mortgage lender. Tenacity can help a lot here. If the first lender you approach denies you a loan, keep trying with other lenders. Make inquiries with friends and neighbors about who is making mortgage loans in your neighborhood. If you look hard enough, you will find a lender, though you may have to pay a premium for the loan.

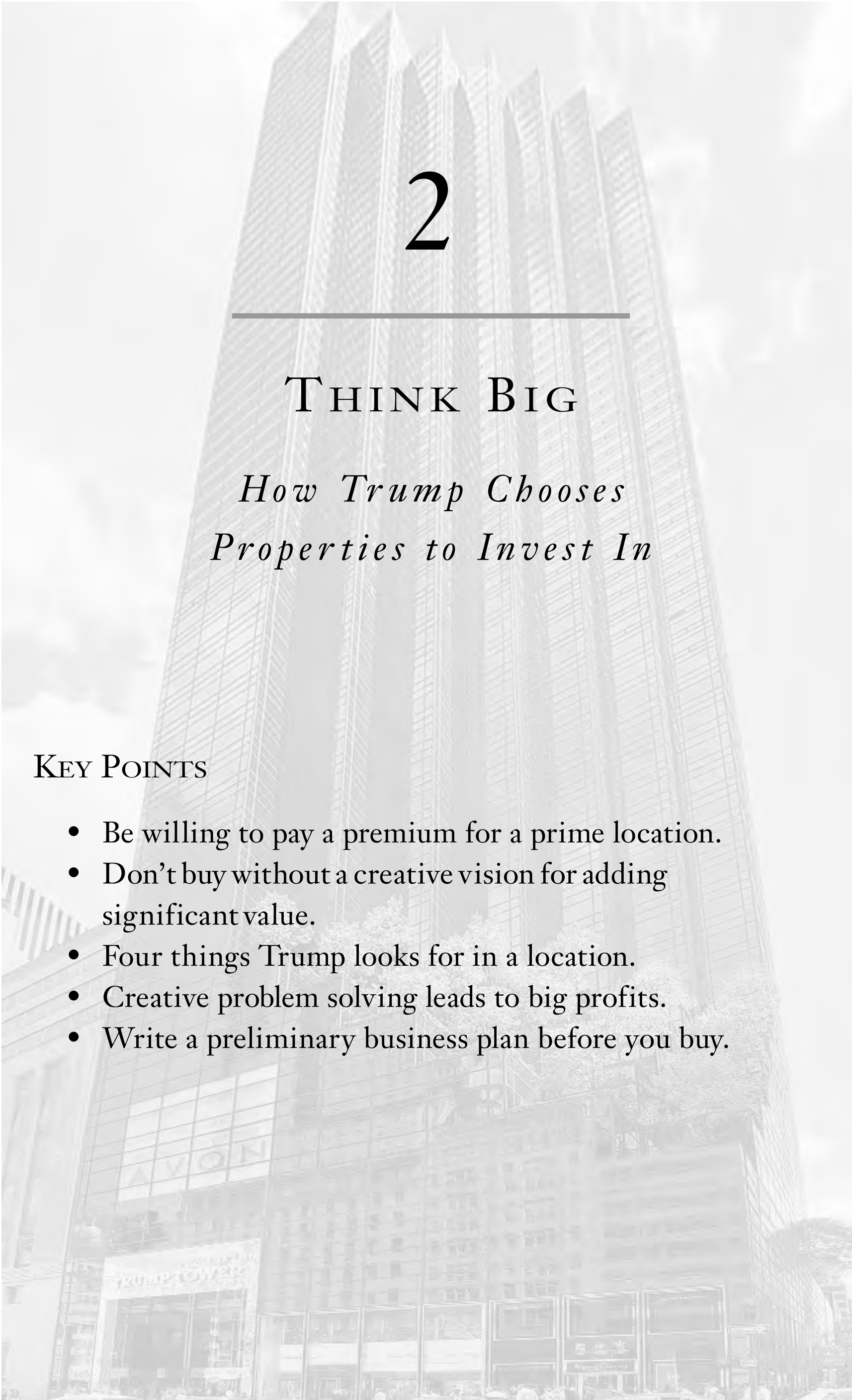
Another potential roadblock could be a stubborn seller. Here you have to find out exactly why he or she does not want to sell, then in a determined way, answer each issue.

Other possible roadblocks could be denial of a zoning variance or a building permit. Again, you have to approach the problem tenaciously. Find out what the bureaucrats' specific concerns with your plans are, then address these issues.

Everything worth doing is difficult, and in order to accomplish it, you have to be tenacious.

## Summary

I deliberately started this book with a chapter on personal qualities because most people don't realize the role that people skills play in real estate investing success. It is not just a matter of financing, buying the right property, getting tenants, and so on. All these elements are built on a foundation of having the right personal qualities. Great real estate investors like Trump are also great entrepreneurs. They know that they know how to get people excited about their bold ideas, and they are undaunted by the setbacks, problems, and disappointments that cause most people to give up.




# 2

## Think Big

### *How Trump Chooses Properties to Invest In*

Key Points

- Be willing to pay a premium for a prime location.
- Don't buy without a creative vision for adding significant value.
- Four things Trump looks for in a location.
- Creative problem solving leads to big profits.
- Write a preliminary business plan before you buy.

YOU'VE HEARD THE cliche about the three most important things in real estate being "location, location, location." Trump thinks this is misleading. Location is important, but having a great location doesn't guarantee anything. It's a starting point for what could be a great investment. However, an inept real estate investor could own property at a great location and lose a fortune. One of the cornerstones of Trump's philosophy is "Improve any Location." In other words, use creativity and vision to change the way your location is utilized. Trump never gets involved with something that's just ordinary—it has to be very special. If he's building an apartment building, it has to be the most luxurious, and the biggest and best in the area. Small investors can adapt this principle by doing something radical to their property, changing the zoning, changing the way the property is used, or renovating it so strikingly that people think about the location in a new way. That's what he decided to do when he conceived the idea for Trump World Tower at the United Nations Plaza.

## DEAL CASE STUDY

### Trump World Tower at the United Nations

When Donald first discovered this property in 1997 it contained a sprawling two-story building situated across the street from the United Nations in New York City. The building was the headquarters of an engineering society whose officers decided to sell the building because the value of land for new construction had skyrocketed, and given the prime location they believed they could get a high price and move their offices into better space nearer the business hub of New York City. The zoning ordinance affecting the site limited the size of any new building on the property to a 10:1 ratio: Any new structure could be no bigger than 10 times the square-footage of the land. Since the land area was approximately 37,000 square feet this would have limited Trump to constructing a 370,000 square foot building on the site. Trump knew that the property was very expensive but it was an entire block from 47th Street to 48th Street with an unparalleled view of the United Nations headquarters and the East River. He felt he had to build something extraordinary that would justify the high price of the land and take advantage of the sight lines of the property. Fortuitously, the existing zoning covering the property permitted the transfer of unused "air rights" from one parcel of land to a contiguous parcel on the same block. When the city wrote its zoning law, it wanted to limit the amount of bulk on a particular block but not necessarily building height. It didn't care if the bulk was in one building or 20 buildings. In other words, if a building on Parcel A was 10,000 square feet but the zoning permitted a 30,000-square-foot building, the owner of Parcel A could sell the excess 20,000 square feet of building coverage ("air rights") to the owner of Parcel B. In fact, the building department liked the idea of the bulk being in one structure because it gave you more light and air everywhere else in the neighborhood. Since there was little likelihood that the owner of the unused air rights would ever use them, their sale to an adjoining owner who wanted them could fetch a price far in excess of their worth to the owner who had them.

After making preliminary evaluations, Trump, "thinking big" as he typically does, decided to build a huge luxury condominium tower using air rights from adjoining underbuilt properties. No other developer recognized this possibility, and it was the key to Trump turning this "ordinary" property into something extraordinary. But the process

Trump World Tower at United Nations Plaza would be extremely difficult. First, Trump would have to agree to buy the engineering society's property. Then he would have to convince the owners of the adjacent properties to sell him their unused air rights. In complete compliance with the law, Trump could then incorporate these air rights with the parcel he was buying and get a building permit for a much larger building. If he could buy enough air rights, he could build something really unique—the tallest residential building in New York City.

The key to making this concept work was to acquire the air rights of adjacent buildings *quietly*. Building owners in New York City with excess air rights are often willing to sell them freely because they consider the dollars they get for the air rights as "found money." But if word got out to nearby building owners about what Trump was doing, the prices for those air rights on parcels on the same block might have escalated through the roof. A difficult problem to be overcome was that only air rights on contiguous parcels were of value. He had to make a deal for the air rights on one parcel adjoining the one he was buying, and then work his way down the block to acquire the air rights on several parcels that adjoined one another. So he took options on various properties, offering the owners a high price, subject to his ability to acquire the air rights needed to form the chain permitted by the zoning. The outright purchase of all the adjacent parcels was impossible because one of the parcels was a church that might be willing to sell its air rights but never the church.

Thus, we had several negotiations going on concurrently, and we had to conduct all the negotiations secretly. To help keep our negotiations for air rights simple, we offered the same price per square foot for the air rights to all adjoining property owners. If one owner got a higher price per square foot, we agreed that all other owners would get that same price. That way no owner could feel cheated. In some cases, we actually told an owner, "This is the price per square foot we agreed to pay John Smith for his air rights, and we are offering you the same deal."

Having assembled air rights from seven adjoining parcels, we applied to the building department for a building permit to build a towering 677,000-square-foot building with 376 condominium units—the tallest residential building in New York City. We showed the City that we were in full compliance with the zoning resolutions and were entitled to the issuance of a building permit. We would be building as "a matter of right" meaning we didn't need any special permission from the zoning board. The building department of the City of New York agreed. Some representatives said, "We might not like the proposed building, but it's perfectly legal to build it." They felt that if they denied issuing a building permit, their denial would be overturned in court and possibly lead to a huge damage award.

So, the building department issued the permit. Trump immediately began construction. He did this to gain the advantage of having already broken ground, in the event a lawsuit was filed seeking an injunction against construction.

As the scope of the building as the tallest residential building in New York City and maybe the entire world became evident, a number of prominent residents in the community decided to oppose it. They tried to use political pressure but were told Trump was acting well within the law. A group of wealthy residents in the area, including Walter Cronkite, filed a lawsuit to stop construction, arguing that "the zoning in this neighborhood was intended to permit something completely different; you can't build a 90-floor monster right in front of the U.N." We explained that it wasn't 90 floors, it was 72 floors (it was 90 stories *high* because of higher than normal ceiling heights (ceiling heights did not affect permitted square footage). The opposition didn't like that fact either, but what we did was entirely within the law.

It is easy to understand that when this lawsuit was filed to stop the building, the lenders who had agreed to finance the construction of the building got nervous. They felt that there was a real possibility that the building might never be built as Trump envisioned it. But Trump had a Plan B. He established a relationship with Daewoo—one of the largest corporations in Korea—who was willing to be his partner and would guarantee repayment of the loan if the planned building did not materialize. So now the mortgage lender wasn't worried about the adverse publicity or the lawsuit because they had this billion dollar company, Daewoo, which is the equivalent of General Motors in Korea, to guarantee repayment of the loan if necessary.

Meanwhile, the building kept going up. The opposition tried to stop the construction. They claimed that if Trump's building was allowed to be built they would lose their beautiful views of the East River. They filed a lawsuit against Donald Trump and the City of New York for wrongfully issuing the building permit; but Trump filed a countersuit that sought damages as a result of the opposition's lawsuit and a judgment that the building permit was properly issued. The court basically ruled that the city had every right to issue the permit and Mr. Trump had every right to build the building under the permit. They were not going to issue an injunction in this case because the damages would be horrendous and it was unlikely that Trump's position would be overturned on appeal. They allowed the construction to proceed.

The opposition lost in the lower courts and eventually took their lawsuit to the Court of Appeals—the highest New York State court. The Court of Appeals didn't even review the case to consider overturning it. Their comment to the plaintiffs was, "If you don't like the zoning law, change it. But any subsequent change to the zoning law will not affect this building which is being built in accordance with the law as it now exists."

Trump World Tower is now one of the most luxurious residential towers in the world and enjoys a five-star rating. Many of the apartments have maids' rooms, wood-burning fireplaces, and 16-foot ceilings. A four-bedroom condominium sells for as much as $13.5 million. The building was a huge success and the construction loan was paid off long before its due date from the sale proceeds from units.

Ironically, once the Trump World Tower was completed, some of the people who fought the construction because it blocked their views bought units in Trump World Tower because of its superior construction and far superior views.

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## Principle 1: Be Willing to Pay a Premium for a Prime Location

### By George . . . A Story of Smart Overpayment

Perhaps the best example of paying a premium price for a piece of real estate occurred in 1962 when I was counsel for Sol Goldman and Alex DiLorenzo Jr., the multimillionaires I worked for early in my career. Since they were considered to be the most aggressive purchasers of real estate, they would get dozens of listings sent to them every day. Part of my job was to screen the sale offers and get Sol's opinion as to which ones were of interest to him. One day, a disheveled old broker came into my office and handed me a crumpled piece of paper listing an apartment house in Brooklyn Heights that was for sale by the family who had built it and owned it for over 40 years. The asking price was $860,000 which, at that time, was a lot of money. I didn't know whether the price was high or low but I did know that Brooklyn Heights was a desirable neighborhood, so I brought the listing into Goldman. I told him the broker was a "nobody" and I doubted his

*(Continued)*

ability to bring in anything worthwhile but I thought it was worth bringing it to Sol's attention. Goldman took a quick look at the listing and said, "George, find out how many people the broker has offered this apartment house to." I did as I was asked and when I went back into Sol's office I said, "He knows you're the number one buyer of property in Brooklyn so you are the first person who is aware of this offer." After listening to me, Sol said to me, "I know everything about this property, the type of apartments, the rentals, how well it was built and operated, and I have been secretly trying to buy it for years without success. If the listing gets out in the maketplace, a bidding war will take place for the property and I want to avoid that at all costs. Go out and tell the broker your oddball client will pay $1 million for the property." I said, "Sol, they're only asking $860,000 for the building, so you could probably buy it for $825,000, why offer $1 million?" Sol insisted that I do as he directed. I pleaded, "How can I possibly get the broker to understand the excessive offer." Sol said, "Hey, you're the lawyer, be creative." I went back to the broker who was still sitting in my office and said, "My client likes the property but there is a serious problem. The price is too low!" Thinking he heard wrong the broker said, "You might be able to buy it for $820,000 if you move quickly." I replied, "You're going in the wrong direction, unless you up the price to $1 million my client isn't interested." The broker had a look of total bewilderment on his face and asked, "Why would anyone pay $1 million for a piece of property that could be bought for $860,000?" I replied, "My client is a very eccentric millionaire, he thinks anything that costs less than $1 million is beneath him. So if you come back with a sales contract indicating a purchase price of $1 million, I'm authorized to sign it and give you a deposit of $100,000 immediately. But, I suggest you move quickly before my client comes to his senses." The broker came back with the contract the next day; I signed it and gave him the deposit. The amazing thing is that before title had even passed, Goldman obtained a first mortgage on the property from a bank for $1.4 million—the property was that good. So Sol now owned a building he always coveted, and had pocketed $400,000. The seemingly exorbitant price in reality was an incredible bargain. By overpaying, he made sure the property stayed off the market. There's an excellent lesson here for the small investor. If your instinct tells you a piece of real estate has your name on it, and is significantly undervalued, go for it and forget the price tag!

There will always be a demand for a prime location, and people will always pay a premium price to get a prime location. You have to avoid the trap of looking only at the average selling prices in your local real estate marketplace, and be willing to "overpay" if overpayment is warranted. In other words, the so-called "average market price" of property is computed based on limited general information relating to an entire neighborhood, not the value of a specific property which may have a desirable size and a better location. You may have to pay 50 percent to 100 percent more to get a good property in a great location, but it's worth it if that will allow you to attract superior tenants or buyers, and if you can improve the site to get maximum value out of it.

Trump World Tower was a perfect example of overpaying for a prime location. When Trump found it, the property contained an outdated two-story office building owned by an engineering fraternity. The amount of money they wanted for the site was outrageous. But Donald Trump paid it, because he knew other buildings on the block had unused air rights that could be purchased at reasonable prices and then he could build something extraordinary.

Trump is always willing to pay a premium for a prime location, but he also knows that "there's no right price for the wrong property." He will not buy something just because it's cheap, if he can't see a way to add significant value. The reality is that in small or cation if he can devise a plan that will dramatically change the way people perceive and value the property. To be attractive to Trump or to any intelligent investor there has to be undiscovered potential for adding significant value to the property—value that is not already factored into the selling price of the building.

For example, if the officers of the engineering society had known that it was possible to build a 90-story building on their property they could have sold the concept to many other developers for a much higher price. Most people looking at the site would have seen only the potential for a 370,000-square-foot 20-story building, the limit permitted under the then existing zoning restrictions of the city. What made the deal successful was Trump's creative vision for buying up the surrounding air rights, and using them to build a towering 667,000 square foot structure with high ceilings, floor-to-ceiling windows, thus capitalizing on the site's potentially magnificent views. The genius of Trump was that he was able to put all the pieces together at a price that was consistent with the anticipated sales prices he would get for the condominium units.

Though you may be a small investor, if you want to be extremely successful make sure that you too have a vision for adding significant value to any property you buy. Think about your vision for adding undiscovered value before you get serious about putting any money down for the property. You have to think creatively about the ways to get the highest and best use out of a property. For example, you might buy a fixer-upper in a great neighborhood and renovate it, or build an addition, increase the number of units or the quality of the tenants. Other creative options are to build another building or amenities on the property, change the use from residential to commercial or vice versa, or seek a variance or a change in the zoning. These are all ways to enhance the value.

The bottom line is, whenever you are considering buying an investment property; explore ways to "Improve the Location."

## Principle 3: Four Things Trump Looks for in a Location

### *Great Views*

What Trump liked best about the location on which he built Trump World Tower was the potential for stunning views over the East River. Without that, he would not have bought the property. In fact, views were also an important factor behind the success of his 40 Wall Street building (great views of New York Harbor from the upper floors), Trump Tower (which overlooks Central Park), Trump International Hotel and Tower (also overlooking Central Park), and his West Side Towers that overlook the Hudson River. For a small investor, good views may mean something slightly different, and more modest, but just as important to the value of the property. For example, a modest residential building may have views onto a grove of trees at the back of the property. Turning them into a park-like setting could raise the value of the building. In one of his buildings, Trump went so far as to cut larger window holes out of the existing structure, to enhance the building's views of Central Park. The importance of views depends on the particular use of the property you have in mind. Certainly, nobody wants to live near a dumpsite or a sewerage treatment plant but a quiet street is a good view for a modest residential building. At a minimum, look for a view that is compatible with the life style of the occupants of your property and you've passed the view requirement.

### *Prestige*

Trump also looks for locations that have prestige, and in the case of Trump World Tower, he liked the prestige of having a building next to the United Nations. Trump knew that many governments would be eager to buy luxury apartments for their senior diplomats across the street from the UN building. Trump Tower has a 5th Avenue address which is very prestigious as is the Wall Street address of the Trump building at 40 Wall Street. A small investor purchasing a real estate parcel should consider whether or not the location or the address is desirable for the people you intend to attract. If your target is high-income families, then you have to buy in an area that already contains luxury residences. If your intended target is middle-income families or low-income families, pick an area considered to be desirable among members of that group.

### *Growth Potential*

Any real estate acquisition by Trump must have some growth potential or it won't pique his interest. The most important questions to be answered are: "Will this investment keep up with changing times? Will rents keep up with inflation? Is the area stable, getting better, or deteriorating?" Any serious investor in real estate should be asking and answering the very same questions if you expect to be successful. One of the best places to look for undervalued property is in marginal areas that are near very successful locations.

Land banking may be appropriate in many cases. Land banking is buying land on the theory that, in time, it's going to go up in value, perhaps because it's in a strategic location. Meanwhile, you're going to pay the taxes and other carrying charges on it. To the extent you have no offsetting income—that's your investment. You may not intend to develop it or build on it yourself. Your intention may be to own it until the value of its location increases. In New York City, a good example of land banking might be acquiring an existing parking lot in the midst of surrounding underutilized parcels. Your immediate intention might be to continue the property's interim use as a parking lot, until a more profitable use comes into view.

Land banking is always a risky investment but one that can be extremely profitable if you guess right. It's a good idea to go into land banking with money you're willing to lose or tie up for a long time. It works especially well when there's an area or neighborhood that is in transition, or it looks like it's in transition. For example, you see a depressed area, and an area not far away which is starting to flourish, being rebuilt, and on the rise. You might say to yourself, "Hey, I can buy here while it's cheap, because sooner or later the growth will come my way and I want to be there when it happens." So you buy on the theory that there will be an uptick at some time in the foreseeable future. You never know how long it will take for that to occur. You have no control over if it happens or when it happens. However one thing is for sure. The earlier you buy it, the cheaper the price and conversely, the later you buy it—once the growth in the neighborhood gets hot—the higher the price.

### *Convenience*

Another thing Trump looks for in a location is the convenience of the location for his intended customers whether they are apartment owners or office tenants. Convenience encompasses the proximity of shopping facilities, transportation, schools, houses of worship, and other amenities. Availability of a suitable labor force is a factor to be considered in determining the desirability of office or commercial space. If you intend to live or work in the property you are planning to buy, just ask yourself does this property meet your needs; can you picture yourself being happy there and in the neighborhood. If the answer is "yes" it should be a good buy. Your future buyers will probably have the same response. If it's not a place you would feel comfortable, I suggest you pass.

## Principle 4: Creative Problem Solving Leads to Big Profits

In my 20 years of representing major estate developers before I met Donald Trump I earned my reputation as a problem solver, and it's one of the reasons he hired me. It has been the key to my success in real estate and in law, and I encourage every small real estate investor to think of real estate problems, especially in the acquisition stage, as "opportunities." In fact, Donald and I both tend to view things that are considered "impossible" by other experts, as simply taking longer. This is what happened on the Commodore Hotel deal I described in Chapter 1, and this common perspective has been one of the foundations of our work together. We became a formidable combination that still exists today.

As I mentioned, one of the things I learned from working with New York real estate mogul Sol Goldman, is that "every problem has a price tag." Many small real estate investors are intimidated by problems, but to entrepreneurial minds like Trump's, a problem is like a key to the vault—a reason to get an even lower price on a building. Some of Trump's biggest profits have come from properties he bought cheap because they had complex problems nobody had been able to solve. After he solved the problem, he reaped millions of dollars in profits (40 Wall Street, which I discuss in Chapter 3, is a good example). Ambitious real estate investors should look at a problem property (provided it can be bought at a correspondingly large discount) as a great opportunity.

Unfortunately, lawyers are too often trained to kill deals when problems arise, rather than translating legal problems and risks into financial terms, so that a business decision can be made. Many times real estate deals run into problems that can only be solved with creative, "out-of-the-box" thinking. That's how Donald and I put together a deal that brought Niketown to a prime location in New York City.

### *Creative Problem Solving: Trump, Ross, IBM, and the Nike Building on 5th Avenue*

In the process of putting together the property to build Trump Tower (I tell that story in Chapter 5), Trump acquired the Bonwit Teller building on 5th Avenue. However, the ground lease for this site was owned by a veteran New York investor named Leonard Kandell. Bonwit Teller was leasing the site for a below-market rent and in 1990 fell on hard times. They wanted out of their lease and were willing to pay for the privilege. Gallerie Lafayette, a premier French department store chain wanted a New York store, so Trump sold them on the idea of taking over the Bonwit Teller store—at a rent which topped the old Bonwit rent by over $3 million a year! He then agreed to cancellation of the Bonwit lease and Bonwit paid a few million to get off the obligation. The success Gallerie Lafayette envisioned never happened and in 1993–1994 they too wanted out and were also willing to pay for the privilege. At that time, Nike desired to build a flagship store on 57th Street. The Bonwit/Lafayette/Kandell site with its 50-foot frontage was too small but Trump also had a long-term lease on a site owned by IBM that was next to the Kandell site and also had 50 feet of frontage. Trump asked Nike, "If I can combine both sites giving you 100 feet of frontage and 100 feet of depth would you agree to a long-term lease?" Nike loved the idea and agreed to a rent averaging $9 million a year. They also agreed to demolish the buildings on both sites and then construct a new $50 million Niketown building at their own expense. Now the problem Trump was faced with was convincing two separate ground lease owners (Kandell and IBM) to revise and extend their ground leases with Trump to permit Nike to build. Trump had previously been a long-term client of mine but I hadn't represented him for seven years. At that time, I was the attorney for Leonard Kandell. Trump sent two of his associates to renegotiate the Kandell ground lease with me. Although I wasn't working for Donald, I wanted to be helpful if it benefited Kandell. Trump's representatives said that they felt the Kandell site had a value of $2.5 million and they were willing to pay a rent starting at $250,000 a year. I told them I couldn't agree with the value they placed on the site because there was one "0" missing. $25 million was the right number. They were shocked by my answer and went back to report to Trump their lack of success. They complained, "You told us we could make a fair deal with George Ross but what he wants is outrageous." When they told Trump the offer they had made, he said, "What did you expect? You tried to low ball him and he did you one better. I'll handle it myself."

Donald called me and arranged a meeting. At that meeting he told me about the Nike deal and asked me what I could do to help him do it. Once again I was impressed with the creative problem-solving genius of Trump in envisioning this complex plan. I told him if the increased rental was adequate I could get Kandell to agree to a revised lease that would enable the Nike deal to be made, but obtaining a revision of the IBM lease was his problem and Ed Minskoff who represented IBM would be very difficult to convince. I was right. Minskoff raised obstacles that were difficult or impossible to overcome, such as asking for control of the Kandell site. As each problem arose Trump would call me and ask my advice. I said to him, "Donald, what you need is to get Minskoff to agree to a co-ownership agreement which sets forth the rights of Kandell and IBM when the Nike lease expires." Donald said, "I've never seen a co-ownership agreement." I replied, "Neither did I until I needed one years ago and couldn't find anyone who did one. I spent a full month drafting one which touches all the bases." I told him I would send it to him and if Minskoff wanted to modify it, he could call me. Minskoff liked the co-ownership idea and told Trump if they could agree to a revision and extension of Trump's lease with IBM he had a deal. Trump and Minskoff agreed to terms and the Nike building became a very profitable reality. As is so often typical in real estate investing, this deal would have failed at many points without continuous creative problem solving.

## By George . . . Creative Problem Solving at Olympic Tower on 5th Avenue

As I mentioned earlier, I learned how to stop thinking like a lawyer and think like a problem solver while I worked for Sol Goldman, who forced me to put a price on every real estate problem. In the early 1970s, my problem-solving expertise eventually endeared me to Arthur Cohen, another creative genius where real estate was involved, and principal of Arlen Realty and Development Corporation, a publicly traded entity. Cohen came up with the original idea of erecting a mixed-use building on 51st Street and 5th Avenue in New York City with stores on the ground floor, offices above for approximately 20 floors, and finally topped by another 20 floors containing luxury cooperative apartments. However, the only property he could control was a narrow plot in the middle of the block. The plot fronted on 5th Avenue and was occupied by Olympic Airways, a company that was owned by Aristotle Onassis. Cohen's original idea was to buy the air rights over Best & Co. which owned a large parcel of land on the corner of 5th Avenue and 51st Street. Then he would also buy the air rights over the Cartier building on 5th Avenue and 52nd Street. The Olympic site would be used for elevators to a sky lobby servicing a new building that would cantilever over the Best & Co. building. I christened this novelty building the "popsicle." But it never came to pass. Instead something else interesting happened on the site.

Cohen became a close friend of Meshulam Riklis who owned Best & Co. Riklis agreed to sell Cohen the Best & Co. site so that a normal looking building called Olympic Tower could now be built on the site—but only if I could resolve a dispute that arose between Riklis and Aristotle Onassis, each of whom wanted office space on the highest floors of the new building. Since Riklis was committing to lease several floors as part of the sale of the Best & Co. site, he insisted on taking the top four floors. But Onassis's ego would not tolerate his offices being lower than Riklis. I had to find a way to appease both of these men or the project would abort. So I sold them on the idea of checkerboarding their space. Onassis would lease the top floor. Riklis would lease the floor below. Then Onassis would lease the next lower floor until the each had the amount of space they wanted. It was a cumbersome solution but they bought it and Arthur Cohen's vision became reality. This is the kind of creative problem solving successful real estate investors need to learn to do.

As it turned out, the project needed more creative approaches to challenges and opportunities that arose. Olympic Tower was the first mixed-use building of its type in New York City. Cohen took advantage of a statute that permitted a larger building if a public area was provided on the street level. (I helped Trump do the same thing years later in Trump Tower, described in Chapter 5.) Cohen also filed for the benefits of 421a, a statute that gave favorable tax treatment for a new building built on undeveloped land. (Again Trump would do the same thing for Trump Tower.)

While Olympic Tower was being constructed, the concept of condominium ownership was gaining popularity. The idea of owning a unit rather than renting one under a lease from a cooperative corporation had merit since the unit would be taxed separately, could be easily mortgaged or sold, and would be entitled to the tax treatment available to real estate owners. One day, Arthur Cohen called me and said, "George, I'd like to turn Olympic Tower into a mixed-use condominium, can it be done?" I said, "Arthur, I never heard of such a thing, but let me check it out and see what I can come up with." I paid a visit to the New York City Building Department to see if there was any prohibition to such a building. I was told there is no statute either permitting it or prohibiting it, and they would review any building plans that were submitted. Since the state attorney general's office must approve any condominium plan or cooperative plan, I had the partner in my firm that handles such plans find out from his contact with the attorney general's office whether a mixed-use condominium plan would be acceptable. He reported back that none had ever been filed but there was no prohibition for a mixed-use building but any condominium on leased land was prohibited.

*(Continued)*

Relying on this information, I told Arthur the condominium plan was possible. I told my partner to draft the condominium documents. In the middle of drafting them, he asked, "I have to prepare an estimate of expenses that each unit owner will pay. What number should I use for real estate taxes?" I didn't have any idea of the thinking of the tax assessor's office as to allocation of the taxes on the land, so I paid the tax assessor a visit to get the information. The tax assessor said, "I don't have the slightest idea since the question has never come up. As of today, there are no mixed-use condominium buildings in the city. Figure it out for yourself but my best guess would be that the land taxes would be apportioned based on the ratio that the square footage of the residential portion bears to the square footage of the nonresidential portion." If the assessor's office took that approach, the amount of land taxes the unit holders would bear for the very valuable land on which the building stood would price the units out of the market.

Now I had another obstacle to overcome. How could I reduce the exposure of the unit owners for real estate taxes? The answer was simple—eliminate their ownership of the land. But the attorney general would not approve any condominium plan for a building that does not have an ownership interest in the land on which it sits. After much thought, an innovative and unusual solution came to mind, I decided to deed to the unit holders as a group the land under the 24 columns that supported the building. I prepared and filed a deed for 24 pieces of land each being four square feet and identified with a typical metes and bounds description. Except for the 24 pieces, the unit owners had no rights to any of the land. The rest of the land was owned by the owner of the unit that covered all of the building below the residential units. My concept was accepted and the Olympic Tower was a huge success. After the Olympic Tower was completed, legislation was passed governing mixed-use condominiums and the allocation of real estate taxes. Years later, when Donald Trump decided to build Trump Tower, we drew on my Olympic Tower's experience to creatively solve problems wherever it was feasible to do so.

## Principle 5: Write a Business Plan before You Buy

Once Trump intends to purchase a property, he has his associates prepare a projected business plan containing the following items:

- Anticipated costs of various items,
- Nature and cost of available financing,
- Estimates of income,
- A projected timeline indicating when expenses will be incurred and when income will be received.

Creating a preliminary business plan is an important discipline for you to adopt because it forces you to think through the most important elements of owning a particular piece of property. It also forces you to think of your future plans for the property, and the timing of an eventual sale. Are you looking for a safe or speculative return on your money, or are you looking for a situation in which you're going to buy and do something to it, dramatically increasing the value based on your creative vision and then sell all or part of it to make a profit? (Obviously, Trump prefers the latter approach.) The key to buying or not buying is the answer to the following question, "Does the purchase achieve the intended goal as part of your investment portfolio." Ask yourself, "Am I looking to make a capital gain? Will it be short term or long term? Am I looking to buy and hold this property as part of my estate? Am I looking for a transaction that has great tax benefits, at the expense of other monetary benefits?" It depends on the nature of your goals at that time as to whether or not a particular purchase is consistent with that goal. It's very possible, logical, and desirable for a small investor to purchase different properties with different goals.

For example, you might buy a piece of land on the outskirts of town, build it up, and plan that in three years you'll sell it and double your money. Or, in another part of the city you might buy something that can be leased to a reputable tenant giving you a safe return of 8 percent on your money. In another neighborhood, you might consider building something new from the ground up with a view toward sale, lease, or long range ownership.

Here are some questions to answer in your business plan for the property:

- How are you going to increase the value of whatever it is you intend to buy?
- What are the projected costs for refurbishment, income, and expense? Make a financial analysis of the property to find out.
- Is it going to be a short- or long-term investment? Are you planning to flip the property or buy and hold?
- How do you intend to manage the property?
- How will you finance the property? Do you intend to get investors, or finance it through a bank by yourself?
- If you need investors, how will you pitch them? What percentage return on their money will they get?
- What is your strategy and timeline for selling the property?

Careful crafting of a business plan will not only help you explain more convincingly to lenders the great plans you have for the property, it will also help you be realistic about costs, and projected profits.

THE ABILITY TO negotiate intelligently is the key to the completion of any successful real estate transaction, large or small. The problem is, the art of negotiation is far more complex than just haggling over a selling price. It's mastering preparation, knowledge of human nature, learning how to uncover and exploit weaknesses, learning special skills, and many other intricacies. Good real estate negotiation principles are developed with the aim of getting others to agree with your ideas.

If you can adopt some of the negotiation principles Donald Trump used when he bought 40 Wall Street in New York City, you will give yourself a powerful advantage in your next real estate transaction. This chapter explains five key negotiation principles from that deal. Following the case study presentation is an explanation of each principle, along with examples of how Trump used them, and how small investors can do likewise.

## INVESTING CASE STUDY

### TRUMP'S 40 WALL STREET BUILDING

In 1994, 40 Wall Street was a huge old building in downtown Manhattan that nobody wanted. It had over one million square feet of space in a great location, but over the years had been totally mismanaged. To make matters worse, the building was almost entirely vacant and in a state of total disrepair.

Built in the 1920s, it was once the tallest building in the world and had been a renowned New York landmark. When Trump got interested in the property, and asked me to handle the acquisition for him, the land on which the building was built was owned by a wealthy German family who had granted a long-term lease to a bank that had built the building as its headquarters.

Unfortunately, the building had a very troubled past with many building operators. At one time, Ferdinand Marcos, the infamous president of the Philippines owned it, and during his tenure the building was run into the ground. Eventually, it went into foreclosure and was sold to a member of the Resnick family who had loads of real estate experience, but who still couldn't make it work. He let it go into foreclosure and the holder of the mortgage took it back. Then it went to Kinson Group out of Hong Kong. They put millions of dollars into it, but they also failed dismally. Nobody seemed able to come up with a plan that could transform 40 Wall Street from a loser to a winner.

The underlying problem was that the ground lease (the lease for the land on which the building was built) was antiquated and contained provisions that were hostile to potential occupants, making it difficult for anyone to finance a purchase of the lease or needed building renovations. Although they tried, none of the previous owners could ever get the ground lease modified to eliminate the deficiencies it contained. Percy Pyne was the man who represented the German property owner, and nobody was able to bypass him in order to negotiate directly with the owner. Pyne was a difficult man to deal with and continually placed unacceptable obstacles in the way of every deal that was proposed.

While the Kinson group poured millions of dollars into the property, they also forced most tenants out of the building, leaving it almost vacant, except for a law firm that occupied seven floors on a long-term lease. Kinson left the building with virtually no services and in terrible shape, and to make matters worse, their failure to pay contractors resulted in the filing of several mechanic liens adding up to almost a million dollars against the building. Since there was no

40 Wall Street

better alternative, the Kinson group agreed that it would give Trump an option to buy the building for $1 million. (The huge building was one million square feet, which meant Trump could buy the building for a dollar per square foot—a ridiculously low price.) Trump also assumed liability for the $1 million of liens.

Trump realized he could never make a deal with Percy Pyne, so in a stroke of pure genius he flew to Germany and met directly with the owner of the property. He was following one of the basic principles that good salespeople know—find a way to get around the gatekeeper and talk directly to the decision maker.

Trump told the owner, "If you work with me and give me a fair ground lease, I will make 40 Wall Street a very successful building that you will be proud of. But, he added, I can't pay you any rent for at least a year while I am renovating the building. I know you have had a parade of failing tenants but I guarantee I won't join the list."

Trump won over the owner, who agreed to rewrite the lease to make it financeable and feasible for either an office or residential building.

Part of what Trump loved about this deal was the fact that no one else had been able to make the building work. He loved the challenge. What made it even more enticing was the location: it had wonderful views of the New York Harbor and fantastic potential. Also, Trump thought the rental market would turn around, the building was huge, and where in the world could you buy a prime-located office building for $1 a square foot even with all its problems? It's unheard of. Even though in 1996, the downtown New York City area was still a disaster, Trump exercised the option to buy 40 Wall Street.

Trump had an advisor named Abe Wallach who played an instrumental role in the purchase of 40 Wall Street and was of the opinion that it could never be successful as an office building. He thought the only feasible solution was a conversion into residential co-operative apartments. At this particular time, there was a glut of office space, and in fact, the city was offering developers incentives to convert vacant office space in the downtown area to residential units. So

Trump said to me, "George, I'm thinking of turning 40 Wall Street into co-op units, because that's what everybody else is doing. I want you to analyze the situation and tell me what you think I should do."

A number of well-known brokers had analyzed the building and determined that there were no tenants looking for office space downtown. They said that even if the office rental market improved, the higher floors were too small to be attractive, and the lower floors contained huge columns that interfered with efficient space usage. Their sentiments were unanimous: "It will never work as an office building even if by some miracle the market for downtown office space improves."

But there was a major roadblock to residential conversion. Before any work could be commenced a deal would have to be made with the seven-floor law firm to give up their lease. Based on my extensive experience in dealing with holdouts and knowing the principals of the law firm, I knew this would be a time-consuming and expensive settlement.

Not satisfied with the advice of others to turn the building into co-op apartments, I did my own analysis and about a week later I went to Donald and said, "I studied the best use of the building and came to the conclusion that it actually can work as an office building. The experts have been taking the wrong approach and reached the wrong conclusion. You don't have one office building, you have three. They just happen to be on top of each other. You have 400,000 square feet of small office space on the top portion of the building. I don't care what the others say; I think that's rentable at $17 per square foot (which was $2 per square foot *over* the average market rent) because a tenant will have the prestige of renting an entire floor, and a fantastic view of New York harbor."

I also told him that I worked out the financial projections based on his total cost of acquisition and renovation. I concluded that: "If we can take the 400,000 square feet at the top of the building and rent it for $17 per square foot, you'll break even. On the next 300,000 square feet going down, the floors are larger, so even without the views we should still be able to average $17 a square foot in rent. If I can do that, you will make a profit. As for the bottom 300,000 square feet, it doesn't matter if you never rent it as office space. You're in so cheap at $1 per square foot; it won't make any difference what you do with it so long as you can cover the cost of renovation for an occupant."

I outlined my game plan: "First you'll have to do a total makeover of the lobby to make it luxurious, à la Trump style. Second you'll have to renovate the infrastructure to bring it all up to state of the art. This will include the elevators, air conditioning, electrical, and plumbing systems. Third, to be competitive with more modern buildings, all of the latest telecommunication and data systems must be installed and available for tenants. If you agree to do that, I'll do the leasing." Trump replied, "George, make it happen."

Trump borrowed $35 million from Union Labor Life Insurance Company to be used for renovations. They loved the idea of renovating this building because it would put many of their union members back to work. They even stipulated that only union members could be used in construction or renovation. Although the loan was for $35 million, it wasn't nearly enough if we signed tenants and made the improvements that would be required. I told Trump: "If the building is a huge success, it's a terrible loan but if the building bombs, it's a great loan." Nevertheless, based on the past history of failures with the building and the economic climate at that time, it was the only loan Trump could get at that time.

I settled the mechanic liens that existed on the building (almost $1 million) for $60,000. I told all the parties that had the liens, "Look, there's no way you're going to get paid the amount of your claims. But I will give you first crack at renovation work on the building if you give up your liens." Most of them agreed to it, and I gave them an opportunity to bid on the work.

Trump successfully refurbished the building and I started leasing it. The first lease I made was with a major financial firm at a rental of $23 a square foot—far higher than the $17 per square foot I had projected. The building had assumed the mantle of credibility and achieved the recognition of superiority that Trump ownership connotes. As the market rebounded and the building became extremely popular, I rented 400,000 square feet at $24 per square foot on the lower floors to American Express. Later on I rented another 400,000 feet to Continental Casualty Co. at a good rental number. With the influx of tenants Trump replaced the original mortgage with a huge mortgage at a very reasonable interest rate. I'm still involved in leasing and managing it, and today the building, which he bought for $1 million, is worth between $340 and $400 million. It's called the Trump Building and it's a tremendous success.

## Insist on Negotiating Directly with the Decision Maker, Not a Representative

Trump's style of negotiation is face-to-face. He rarely lets others negotiate for him. In the Commodore-Hyatt deal described in Chapter 1, Trump negotiated directly with Jay Pritzker, the CEO of the Hyatt Company. But not before spinning his wheels with no results trying to negotiate with Pritzker's underlings. Learn from his early mistake, and as a general rule, don't let others negotiate on your behalf. If you want credibility, do it yourself. Meet important people. Go to the highest level, the decision maker. That was the breakthrough for Trump with 40 Wall Street.

Trump's instincts were that the ground lease owner of 40 Wall Street could not be as bad a businessman as he was portrayed to be. The man obviously would want a good tenant in the property. Yet, the building was in disrepair and barely occupied, the rent wasn't being paid, and Percy Pyne created the impression that the ground lease owner was unreachable and all negotiations had to be done with him. Listening to Pyne, one would believe that, in fact, he was speaking for the owner.

Trump's instinct was that if he wanted to make the deal, he had to get to the owner and talk to him directly, to see whether or not something was being lost in the translation from Percy Pyne. He couldn't believe that a foreign owner of real estate would tolerate this property in its present condition. So he got on a plane and flew to Germany to meet directly with the ground lease owner. There he was able to establish a working relationship of mutual trust that led to successfully negotiating a new ground lease that satisfied both parties. In fact, Trump's relationship with the landowner was so good that while Trump was refurbishing the building (at greater expense than originally planned), Trump asked the owner to waive the rent for a second year. The owner agreed because he was so thrilled with all the work that was going on to make it a first-class building. The waiver saved Trump another $1.5 million in rent. So, by the time Trump had to start paying rent on the ground lease, he had a rental income sufficient to cover all his obligations. As we discussed in Chapter 1, successful, long-term real estate investing is always based on building good personal relationships with the key people involved. The 40 Wall Street deal has a lot to teach small real estate investors about negotiation. Following are explanations of five key principles that Trump used to turn around 40 Wall Street, and how you can use them in your real estate transactions.

## Principle 1: Create the Aura of Exclusivity

One of the most fundamental principles of human nature is that people want something that everyone else wants or no one else has. If you tell someone that a property you own is not for sale there is a good chance they will want it even more. They may even hound you until you name a price. The simple statement that something is a limited edition creates a desire for ownership. For example, the success of any auction sale depends on the number of bidders and the emotional frenzy of a heated bidding environment. Because every parcel of real estate and every building is unique in some way, the exclusivity principle is already at work to drive up the price, but you can get a much higher price, if you can create more exclusivity for your property. Later chapters explain in more detail how Trump does this, but you can create the aura of exclusivity by the way you talk up the features of any property: its location, size, neighborhood, increasing value trends, bargain price, lack of comparable product, or any other selling point that might impress potential tenants or buyers. Embellishment is the order of the day to create excitement and get your target to say "It's a deal."

Using 40 Wall Street as our example, let's look at how Trump created exclusivity. First, he used the variety of floor sizes as a unique selling point. By marketing the building as if it were three separate buildings, one on top of the other, he could offer a tenant a full floor as small as 6,000 square feet and as large as 37,000 square feet. He played up the fact that 40 Wall Street was the only building in the financial area that had such flexibility. The smaller floors at the top of the tower had magnificent views of New York harbor and had the prestige of a full floor for a boutique firm. Visitors would be impressed by seeing a receptionist's desk instead of multiple doors and nameplates as the elevator doors opened. Trump sought out tenants whose space needs were small but who would pay an above market rent to be in a totally refurbished Trump building that catered to their individual needs and gave them great views from all windows.

Second, Trump created exclusivity by insisting that all construction be of the highest quality and workmanship. He redesigned the lobby entrance to create soaring ceiling heights and adorned the floors and ceilings with matching marble slabs from one of the finest quarries in Italy. The heating and cooling equipment and the electrical and plumbing systems were upgraded to those found in new construction. The old elevators were replaced with new cabs and controls that were state of the art.

Third, Trump had the electrical system reconfigured to take advantage of two separate power grids each coming from separate substations. This was used as another exclusive selling point—a breakdown of one substation would not blackout the building. For financial firms on Wall Street, this is a key benefit.

Fourth, Trump applied for and received tax abatements that were available for owners of downtown property willing to undertake renovations. Some of the tax savings could benefit the tenants directly, thus reducing the cost of occupancy. He also was able to convince Con Edison to supply power to the building at a substantial rate reduction which he could pass on to tenants. These exclusive benefits—not offered by other buildings in the area, were incorporated into the marketing campaign. The result was a high rate of occupancy at rental rates much higher per square foot than competitive buildings in the area.

## Principle 2: Don't Be Misled by the Aura of Legitimacy

The "aura of legitimacy" traps all who are unaware of the danger it creates. It is the tendency of people to believe things they see in print, or spoken by the media or some other apparently authoritative source. It is insidious and influential in affecting the decision making of all people under its spell. Here are some examples of how it works:

- A document to be reviewed and signed bears the notation: "Standard Form of Contract of Sale" or "Standard Form of Lease" or similar language. This is intended to convey an aura of legitimacy and dissuade buyers or tenants from negotiating terms. But the reality is, there is no such thing as a standard form. It is merely the work product of someone trying to convince the reader that the document is nonnegotiable. *EVERY DOCUMENT IS NEGOTIABLE UNDER APPROPRIATE CIRCUMSTANCES!* You just have to find who has the authority to make revisions and deal directly with that person. If he or she really wants to make a deal with you, you can negotiate the contract or the lease.
- Every new vehicle in a dealer's showroom has an elaborate document prominently displayed on a back window which bears the legend: "Manufacturer's Suggested Retail Price" (the MSRP). It starts with the so-called basic price of a stripped-down vehicle that nobody would actually want to buy. Then it lists, at an inflated, unrealistic price, the value the manufacturer places on every item, which is not included in the basic price. These are characterized as "optional features." This category can include air conditioning system, sound system components, adjustable sideview mirrors, floor mats, a larger engine (which the vehicle really needs), a special paint color, and other features. At the bottom is the grand total. But in reality the MSRP bears little resemblance to the price that the dealer is willing to accept. So when the buyer gets a discount of several thousand dollars off the MSRP he believes he got a "great deal." The aura of legitimacy created by the MSRP gives that illusion.
- A real estate listing by a major real estate broker specified a condominium apartment for sale at a price of "$3.6 million, firm." The word *firm* was inserted in the printed description of

> the property so that the buyer would come in with an offer close to the asking price. When a friend asked my advice as to how much he should offer for the unit—which sounded like his dream home, I asked: "What offer did you have in mind?" He replied, "Since the seller said $3.6 million *firm*, I intend to offer him $3.4 million." I told him: "Offer $1.8 million." He replied, "The seller will be insulted with such a ridiculous offer and I'll lose the deal." I said, "Try it, and see what happens." He took my advice and eventually bought the apartment for $2.1 million. The aura of legitimacy almost cost him $1.3 million.

A typical instance where the aura of legitimacy can mislead real estate investors is when, for example, reputable real estate brokerage firms turn out a report indicating the current status of the rental or sales market. They have created this aura. They have compiled a survey from a limited sample they have selected; they have arrived at the figures; and they have published the information. And from all this input they arrive at a figure of 13.8 percent vacancy rate for type A office space. Anyone reading this report might conclude, "If the top real estate brokerage firm says that the vacancy rate for my type of building is 13.8 percent and the vacancy rate in my building is only 10 percent, I'm really doing great." But it's just not so. These kinds of market statistics are always averages. They may bear no relation to your particular building. In fact, Trump properties usually sell or rent for much higher than the market average.

When we first started out to lease 40 Wall Street, we interviewed several leasing brokers who wanted the assignment. All were of the opinion that we would never achieve a rental of more than $17 a square foot in the foreseeable future. They gave us a whole bunch of statistics showing the rents at other vacant buildings in the area. But they didn't investigate how 40 Wall Street differed from the norm. We felt 40 was special because of its harbor views and unbroken floor areas, and we were right. The first lease we made on 40 Wall Street with a major financial company was at $23 a square foot. Moreover, the average rent in the building ended up being over $30 a square foot.

Don't be misled by the aura of legitimacy. It is often created by sellers who cloak and tailor their figures with information they picked up from dubious sources to make something appear as gospel. Be skeptical of the expenses and income that are reported on any real estate building, that you are interested in purchasing, and verify all this information for yourself.

### *Trump versus the Aura of Legitimacy*

In the 1990s, New York City helped create an aura of legitimacy for converting downtown office buildings to apartments in the form of tax incentives and other benefits. All types of inducements were offered, including reduced rates for electricity, property tax reductions or abatements, and credits for rehabilitation costs, all of which were designed to reduce the glut of office space and turn it into residential housing. This would give the city increased tax revenue from the converted buildings. Thus, the city created the aura of legitimacy that residential conversion was the way to go. We also had the real estate brokers pointing to an array of statistics that indicated that 40 Wall Street was doomed as office space. If we succumbed to the aura of legitimacy going residential with 40 Wall Street would have been the thing to do.

Smart real estate investors refuse to accept the aura of legitimacy without intensive investigation, so Trump investigated. He gave me the project and told me to make an independent analysis and tell him what to do. I told him that based on my own firsthand research I thought it could work as office space if he used the aura of legitimacy to his benefit. He began an extensive renovation plan to create new vitality and a new image for a building that had suffered in the past.

He put the Trump name on the building creating the aura of superb management and operation. We created brochures showing the fantastic harbor views and the flexibility of various floor sizes. We boasted of state of the art facilities and the availability of the latest in communication systems. We promised quick approvals of lease terms and quick payment of brokerage fees. And in the end, that's how we leased it as exclusive office space at over $30 per square foot when the "experts"—the aura creators—said it could never be leased, not even at $17 per square foot.

### *How You Can Avoid the Hypnotic Effect of the Aura of Legitimacy*

Don't take everything you read or hear from brokers, sellers, buyers, tenants, experts, or see on television as if it were etched in stone. Be willing to dig to confirm the facts behind whatever type of project you get involved with. For instance, say you're interested in purchasing a four-unit apartment building in a certain area. First, you might go to a local real estate broker and make inquiries about vacancy rates in that area. The broker says, "Well, the statistics I have show that the area has a very low vacancy rate of 3.6 percent and rents are high." That's a start, but you can't just take his or her word for it. In addition, you should do your own survey of apartments in your area to find out what, in reality, the vacancy situation really is and what the asking rental rates are. Otherwise, you might make an erroneous investment decision based on an aura of legitimacy that indicates a low vacancy rate. In fact, the market in your immediate neighborhood could be glutted with vacant units available at distressed rents.

### *How You Can Use the Aura of Legitimacy Principle to Your Benefit*

Now that you know the effect the aura of legitimacy has on others, it's easy to make it work for you. Create eye-catching literature with appropriate favorable newspaper articles, reports from apparently authoritative sources and favorable handpicked comparable properties. Create advertisements or media which stress "last available units," "builder's closeout," "final reduction," "special offer," "one of a kind," or something equivalent that will create the aura you desire. Use your imagination but everything must be plausible to be effective.

## Principle 3: Every Negotiation Requires Preplanning

In Chapter 1, I described how Donald Trump uses "Ziff's Principle of Least Effort," which states that people will expend the least amount of effort necessary to conclude any transaction. This dovetails perfectly with the power of preplanning in a negotiation. Most people either don't know how to preplan for a negotiation or even if they have the requisite knowledge are too lazy to spend the time doing so. This is always a huge and often a costly mistake. If you can anticipate the questions you may be asked in a negotiation then you can structure the most plausible and favorable responses to them.

At the beginning of a negotiation, what you say and how you say it can be tailored for maximum effect. For example, the ability to give a prompt well-conceived answer to a sensitive question elicits a feeling of satisfaction in the questioner. Although you may have practiced an answer before the question was raised, preplanning permits you to deliver the response with spontaneity as if you just thought of it. You can say: "How about this idea?" or "I just thought of something that might work." The fact that your impromptu manner of thinking is similar to theirs creates an atmosphere of comfort and mutual trust. Preplanning should also include finding newspaper or magazine articles to reinforce any of your positions. Statistics from seemingly reliable sources are also effective and convincing since they convey the "aura of legitimacy."

Real estate investors have a tendency to think that buying or selling real estate is only one negotiation that only involves one round of planning. It's not. It's a series of perhaps hundreds of negotiations at various stages. Each telephone call is a negotiation; each letter is a negotiation; each communication is, in fact, a negotiation. And they all have to be treated separately, so that the end result is what you want. Every time you communicate, for example, with a potential partner, buyer, seller, or anyone else, you need to set aside time to prepare in order to get the response you're looking for.

## Principle 4: Avoid a Quick Deal

If you try to negotiate a quick deal it is a truism that one party will forget something important. Moreover, this will only become apparent after the deal has closed and it's too late to correct the oversight. Overly fast negotiations often leave one party feeling bitter. A quick deal violates many basic negotiating principles and is rarely the right approach. However, in the hands of a skilled, experienced negotiator, rushing a deal can be an awesome weapon to achieve a result that might never happen if the other side spent more time in careful consideration of important factors. Use extreme caution when accelerating the speed of any negotiation. It's usually best to negotiate slowly.

The reason is that satisfaction of the egos on both sides of a negotiation is essential to a mutually agreeable conclusion. Remember that the word negotiation has "EGO" in it. Each participant must feel he has won a number of hard-fought concessions from his adversaries to satisfy his ego that he has done his job well. Here's a good example: I put an ad in the paper to sell my late-model Porsche. It's in great shape, nice year, with low mileage, and with a price of $30,000. It's a great price and a fair deal. You call me up and say I'll give you $25,000 for the Porsche. And I immediately say, "You have a deal." You just bought a $30,000 automobile for $25,000. But are you happy? No! Because, I accepted your offer so fast, you feel that you could have bought it for $20,000. This was a bad negotiation because the buyer isn't happy. If he can, he may try to find a way to back out. The same is true in negotiating over real estate.

Now take the reverse scenario. I put an ad in the paper to sell the same Porsche for $30,000, but this time you phone me and offer $20,000. And I say, "No, the price is $27,000." And you immediately reply with, "Okay, I'll give you the $27,000." Now the question is, am I happy? No! Because you went so fast from $20,000 to $27,000. If I had stuck to my guns you probably would have gone a little higher and paid the $30,000. I got what I wanted, and you got the Porsche for what you were willing to pay, yet neither of us are happy because we didn't spend enough time going through the bargaining process. In a successful negotiation, I have to convince you, the buyer, that you got it for the cheapest price. And you have to convince me that I sold it for the highest price, so that I feel I got the most out of the transaction. All this takes time, haggling, arguing, and discussing to accomplish. It takes extended negotiation.

So if you are negotiating over a piece of property, go through the motions, even though you might already be satisfied with the price and terms. Because unless the other party has satisfied his ego, he is not going to make the deal, or he is going find a reason not to close on the deal. The other party has to be convinced he is making a good deal. The "invested time philosophy" that I discuss in the next section also involves increasing the amount of time spent in pursuit of a final agreement.

### *How Trump Avoided a Quick Deal*

When Trump flew to Germany to meet with the owner of 40 Wall Street, he knew the existing ground lease had to be changed completely to reflect what he had in mind—creating a lease that would permit the flexibility of major renovations, leasing of space, and covering the possibility of a residential use for the building. This meant that he would have to carefully negotiate every point and change all of the provisions of the existing lease. But as a prerequisite to discussing a deal he had to create an environment conducive to success. Trump had to overcome the fact that the building had a long history of failures, bankruptcies, and mismanagement. To make an acceptable deal, he would need to use lots of preparation, relationship building, and showmanship. First he learned everything he could about the German landlord. From his connections with banks that did business in Germany he learned that the landowner was an 80-year-old multimillionaire who also was the patriarch of the Hinneberg family that was well respected and influential in Germany.

Trump assumed that someone of that stature owning a property over 3,000 miles away wanted the benefits of ownership without the headaches and aggravation that came with the renovation, leasing, and operation of a one-million-square-foot building in a distressed area. So Trump had to amass an arsenal of weapons designed to impress. He assembled pictures of the buildings he had built to show the quality and prestige. He was ready to outline his plans for resurrecting 40 Wall Street to the grandeur it had when it was initially built. He had available for display full color renderings showing the difference between the lobby as it presently existed and the lobby after proposed renovation. He had an explanation of how and where he would invest millions of dollars to re-create a building that would make the ground leaseholder proud.

But all this preparation was just the foundation for Trump's initial meeting. The ultimate purpose of that meeting was to find out what Walter Hinneberg really wanted and construct a scenario that would work for both parties. Hinneberg was impressed that someone of Donald Trump's stature would fly to Germany to meet with him and this enabled Trump to establish the atmosphere of mutual trust that was essential to consummation of the deal.

Trump knew that the history of mistrust that Hinneberg endured with prior building operators could only be overcome with the passage of time, relationship building, and constant negotiation to address the concerns of both parties. Instead of trying to sign a quick deal, Trump took almost a year to hammer out the intricate terms of the new ground lease, one of which was a total rent abatement for a period of three years. Both parties were detail oriented and had to expend a great deal of time, energy, and money. But this also meant they were both committed to making the deal work. Without the time investment, the deal probably would have aborted.

### *Why You Should Avoid a Quick Deal*

If you want to buy, sell, or invest in real estate, you must remember that people are willing to spend time with someone who seems genuinely interested in them and what they have to offer. Trying to make a quick deal sends the opposite message to the person you are dealing with. Likewise, it will be much easier for a seller to brush you off, if you are only interested in the selling price of a property, and show no curiosity about the history of the property, or owner's goals, reasons for selling, and so on. The more questions that are asked and answered over extended periods of time in a real estate transaction, the more useful information you will have to bring to the negotiating table. Asking questions and gathering information also cement the impression of a sincere and continued interest Moreover, it is personally gratifying to the seller or the buyer, and personal satisfaction is an essential element in the consummation of any deal. The harder the negotiation and the more time spent, the greater the satisfaction both sides will have over a hard fought victory.

## Principle 5: The Invested Time Principle

This is related to principle 4, "Avoid a quick deal." The "invested time principle" says that the more time a person has invested in a transaction, the less likelihood he or she's going to give it up. In a negotiation, you can use this to your advantage by getting the other party to spend time on the deal, with reasonable requests for information, a slow, drawn-out negotiation (when appropriate), and so on. Because people hate the idea of having wasted time on something that doesn't work out, after they have spent enough time on something, they'll do everything they can to salvage the transaction. It's very hard for someone to say, "forget the whole thing" and walk away, after putting in a great amount of time and effort.

### *How Trump Uses It*

In the 40 Wall Street deal, Trump had to negotiate an existing ground lease that was a terrible document from his standpoint, but a great document from the owner's point of view. Trump and his attorneys had to negotiate every point, every clause, and every part of it in order to come up with a document that both parties would be willing to sign. That was and had to be a very tedious and time-consuming transaction.

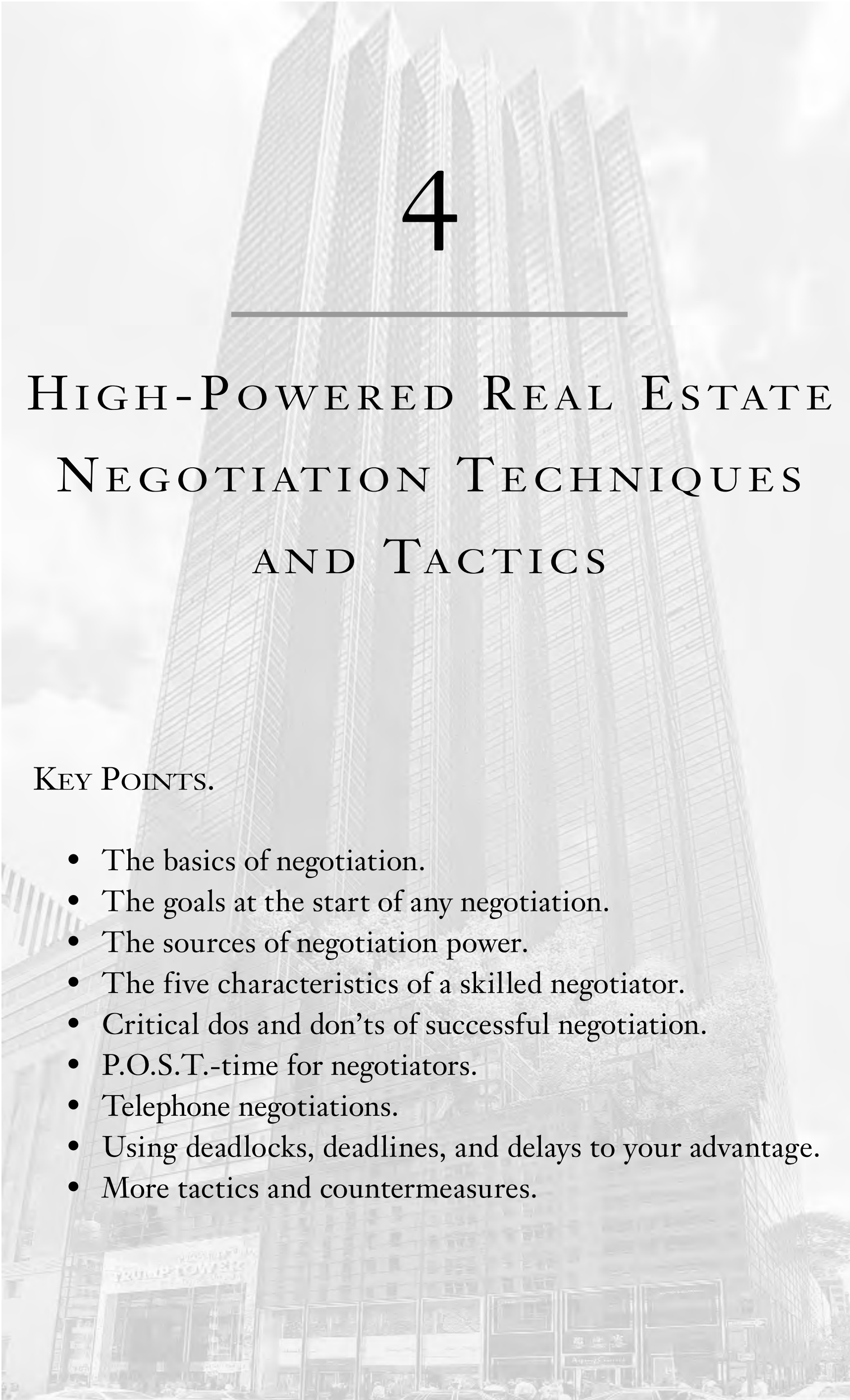
Trump could have said, "I can live with all these unfavorable clauses because they're not critical to making the building a success." But he knew the desirability of building up the invested time of both parties in the deal. It happens naturally when all of the clauses are negotiated separately, continually, and then revised again and again. By doing the negotiation carefully and slowly the lawyers could arrive at language that might be unusual but acceptable to both sides. Of course, it takes a lot of money to pay the fees of the lawyers and the negotiators involved in the drafting of documents. It required many discussions between lawyers and clients to craft solutions to anticipated problems. But everyone involved could say, "We're moving in the right direction. We're constantly revamping and revising but we believe we come out with something both sides can live with." By utilizing the invested time principle, Trump's list of open issues slowly declined and the mutually agreeable solutions increased until there was only one item in dispute between the opposing lawyers. At the last item they each dug in their heels claiming their position was the only one and recommending that the lease not be signed unless the other party gave in. To solve the stalemate Donald called me to intervene and resolve the disputed issue. The issue involved the agreed split of a condemnation award if the property was taken by the government under eminent domain. I told Donald that the likelihood of a governmental taking was remote and giving more money to the owner in that event was a business risk worth taking. He agreed, and that was the end of a long but very successful negotiation.

### *How You Can Use the Invested Time Philosophy to Your Advantage*

Get all people employed by the other side involved in some phase of the negotiation. Get the buyer or seller to review or create financial information and ask them to make projections of income, expenses, cash flow, profits, and tax implications whenever possible. Solicit questions and then give them answers enabling them to rework their calculations. Get the engineering experts to examine the property and report their findings. Have a title search run and relay any problems to the other side. However, never forget that the invested time philosophy could color your decisions as well, if you and your people are the ones putting in an extensive amount of time and effort. Keep the work you and your team do to the minimum necessary and get the other team to expend as much time, money, and energy as you can.

## Summary

Consider how a gourmet chef prepares a special dish. The chef starts with one basic ingredient and then blends it with other items and spices designed to enhance the overall flavor to please a discerning guest. Just think of the negotiating principles in this chapter as the basic ingredient and the negotiating techniques in Chapter 4 as the enhancers. I have seen all these principles work wonders in multimillion dollar real estate deals, and I know they can help you work through difficult negotiations with amazing results.




# 4

# High-Powered Real Estate Negotiation Techniques and Tactics

Key Points.

- The basics of negotiation.
- The goals at the start of any negotiation.
- The sources of negotiation power.
- The five characteristics of a skilled negotiator.
- Critical dos and don'ts of successful negotiation.
- P.O.S.T.-time for negotiators.
- Telephone negotiations.
- Using deadlocks, deadlines, and delays to your advantage.
- More tactics and countermeasures.

I have been negotiating real estate transactions for giants in the industry for 50 years. But when I was a young lawyer I knew very little about negotiation and as a result, I am sure I unwittingly left a lot of my client's chips on the table. Early on, I recognized my own shortcomings and decided to make an intensive study of the field of negotiation. I researched the tricks of the trade from books and from the more experienced lawyers or negotiators who were often my adversaries. When they did something that was effective, I made it part of my style.

Then, after 20 years of experience in real estate negotiations, I started working with Donald Trump, a negotiating genius from whom I learned even more. This chapter is a compilation of techniques I've learned from negotiating over a thousand real estate deals, coupled with Trump's extremely successful variations on the art of negotiating. We have both learned a lot from our association and if you follow the concepts set forth in this chapter and Chapter 3, you will learn much of what I wish I had known when I was a young attorney.

By the way, almost all of the techniques that are discussed in this chapter and the negotiating principles found in Chapter 3 are applicable to the case studies on Trump investments that appear throughout this book. Once you have digested the meat of Chapters 3 and 4, it will be easy for you to spot how Trump and I used these principles and techniques in the investing case studies.

The real estate community is a tough breed to negotiate with. Because each parcel of real estate is unique—its location, views, and topography are but a few of its characteristics. Therefore, each real estate negotiation is also unique. Developers and landlords are often big risk takers and typically shrewd negotiators, whether dealing in small properties or in multimillion dollar properties. But if you follow the guidelines set forth in this chapter you will be able to swim with the "sharks" without becoming their lunch.

## The Basics of Negotiation

Although each of us has been negotiating our entire lives, we know little about it and just do what comes naturally. That's a huge mistake! Negotiation is such an important part of life I am constantly amazed at how little time people spend developing a good technique. One of my main purposes in writing this book is to help you improve your understanding of negotiation and develop the skills necessary to achieve success.

### *What Is Negotiation?*

In my negotiation seminars at New York University, I ask my students every year: What is negotiation? The three best answers I've heard are these:

1. It is one aspect of life where there are no governing rules. Lying is not only permitted, it is an accepted practice.
2. It is accepting an available compromise as a substitute for that which you really thought you wanted.
3. It is a journey to an imaginary destination without a road map where all the signposts and directions are intentionally misleading.

Now let me tell you what negotiation is not:

- It is not a science (all the key concepts are abstract).
- It is not a problem which has a right or wrong answer.
- It is not a situation in which winning is everything.
- It is not an event with continuity.

## The Goals at the Start of Any Negotiation

The ultimate goal of a negotiation, especially a real estate negotiation is to profit from it. But there are several forms of profit. Of course, the first one is monetary, such as a better price or interest rate. But there can be other valuable outcomes to a negotiation, such as acquiring knowledge about a property. More subtly, often the parties in a transaction also have the unconscious goal of obtaining satisfaction from a negotiation and feeling good about the outcome, or at least not losing face. This is another form of "profit" that you want your opponent to feel they have earned.

However, at the beginning of a negotiation, real estate investors (or anyone in a negotiation) should focus on the following immediate goals:

- *Learn the other side's position.* If we learn what the other parties want we can attempt to structure a transaction that meets their needs. There is always a reason or reasons why the other side is willing to consider doing a deal. If you "find the story" of what they really want and think is important, you can address their concerns.
- *Understand the constraints surrounding the transaction.* Every transaction has some controlling factors such as a time frame, competing offers, tax implications, or required approvals. If you learn what they are you can use them to your advantage.

- *Define "fair and reasonable."* What these words mean to each negotiating party may be very different. Understanding that there is a difference in what each side considers "fair and reasonable" is necessary before you can start to reduce the gap in perception between the two sides.
- *Assess "your side."* The personality, knowledge, and skills of the people on your team are equally important to know.
- *Assess the "other side."* It is essential to know the personalities, knowledge, and desires of your opponents. Are they sophisticated, or abrasive, or people you can be comfortable negotiating with? If you think they are untrustworthy, you should run for the nearest exit! One thing that should be perfectly clear in negotiating: There is no way you can ever protect yourself against a thief. No legal document can protect you. Nothing can. If you get involved with someone who is a thief, you're in big trouble.

### *Do You Really Want to Do Business with These People?*

After you've researched and digested all the available information about the parties you're dealing with in a real estate transaction, it's time to trust your instincts. Everyone develops instinctive reactions as a result of prior learning experiences, and when your instincts prove right in a situation, you gradually begin to learn to trust them in the future. When an instinct proves wrong, you quickly learn to abandon it. The result of this sorting process is the creation of a set of instincts that your experience tells you can be trusted.

Your instincts are usually pretty close to being right, especially once you have developed a style of negotiation you are comfortable with. If the deal doesn't feel right; if you instinctively feel like you're dealing with someone who's shady, don't deal with them. You may never be able to prove it, but it is your instinct that has triggered a response. And usually your instincts are right because you have developed them over a long period of time. If you think the deal is too good to be true, it probably is. Or, if you think the person you're getting involved with is someone who seems to remind you of the snake oil salesman in old movies and is prone to exaggerate, or you can't trust what they say, then don't get involved with them.

Here's an example I often use that confirms the value of instinct. You're walking down the sidewalk and farther down you see a group of men. They appear to be a gang of rowdy teenage boys. Instinctively you sense trouble, they're doing something that you sense could become a problem or be a source of danger. So, instinctively you cross the street and begin walking on the other side. And you do this because of something that has happened in your past that tells you instinctively what to do.

Also, if someone comes across as a straight shooter but you feel they're just too good to be true—you shouldn't do business with them. Rely on your gut feeling. I'm not saying you shouldn't trust people, but investigation is a necessity. I will take at face value anything that is said by somebody whom I think I can completely trust, but I'll check everything out later. In fact, I always start out with a lot of assumptions about a real estate deal or people involved in a deal, but I assume that every assumption is wrong. Then I'm surprised when an assumption proves right. I always assume that I am dealing with a trustworthy individual. But I investigate and do a background check to verify the validity of my assumption. Then I'll be satisfied that my assumption was right.

However, I may end up with a situation where I checked this person out and he seemed trustworthy, but along the way he does something that changes my opinion. What should you do when you're dealing with partners you feel you can't trust? Get out! That trust can never be reinstated. Never! Your partner says he'll never do it again, but once the trust has been breached, it can never be corrected. It's like the husband who cheats on his wife, and he says "Honey, I'll never do it again." The wife is crazy if she believes him!

## Sources of Negotiating Power

Negotiating power is the ability and resources to influence others. Some subtle forms of negotiating power include:

- *Good record keeping.* Having good records favors the party who has them when there is a disagreement about what or when something was said. He who has better records and better notes wins the argument about what was said when, and who promised to do what.
- *Preprinted forms.* These favor the party supplying them. For example, if a contract is titled "Standard Purchase Agreement" people assume it's nonnegotiable.
- *Company policy.* The mere statement: "That's our company policy" usually puts an end to many disputes.
- *Knowledge.* Revealing that you have a lot of knowledge or information about a transaction can intimidate the other side so they will ask for fewer concessions. Often people think: "He's too smart for me to try to get this concession."
- *The willingness to take risks.* Assume I have tossed a coin 50 times and each time it came up heads. So I say to you: "I'll give you 10 to 1 odds that it will come up heads again." Now there's a bet you would be inclined to take since you know the real odds are 50–50. Assume that your entire fortune at that time is $100,000 and I say: "It's my million against your $100,000, okay?" Somehow you start thinking: "With my fortune on the line, it'll

probably come up heads again, and I'll lose everything." Your willingness to take a risk has entered the negotiating arena and colored your decision.

- *Time.* Time is the ultimate negotiating power. Every real estate transaction has a time frame within which the parties must work if they want to make a deal. He who controls the timing controls the deal.

## Five Characteristics of a Skilled Negotiator

A renowned researcher in the field of negotiation conducted a survey in which CEOs of major corporations were asked to rate, in order of importance, the requisite qualities of people they would utilize to negotiate on their behalf. Even though I had developed my own ideas, their choices surprised me. Here they are:

1. *Personality.* They believed that a good personality was more important than knowledge. (That shocked me.)
2. *Knowledge of the subject matter.* I thought that would have been #1!
3. *Ability to organize information.* This speaks volumes for the importance CEOs placed on good work habits such as record-keeping and efficient filing and retrieval systems.
4. *Knowledge of human nature.* Wouldn't you think this would have a higher ranking?
5. *Ability to find and exploit weaknesses.* CEOs were interested in utilizing people who had the brainpower and mental agility to probe the other side without setting off any warning bells, and then use the information gained to their advantage.

The next section of this chapter describes how you can develop these five negotiation skills that CEOs value most highly.

*Improve Your Personality*

Be a "nice person" to deal with. Be friendly. Make others feel "comfortable" in talking and dealing with you. This is essential. If people like you they'll go all out to please you. Look for common ground to establish a good rapport with the other side. Find a common theme for discussion. Look around their offices or desks. If they're interested in sports—talk sports. Look for family pictures and ask questions about them. "Is that your grandchild? She looks like a tomboy, is she? How many grandchildren do you have? How many boys? Do you see them often?" The greater interest you show in them, the more you engender a "warm and cozy" feeling.

Exhibiting a good sense of humor is usually an excellent icebreaker, but stay clear of anything that might be considered offensive.

Let it be known that you are a *deal maker*, not a *deal breaker*. Convince the other side of your sincerity and desire to reach a mutually amicable conclusion.

Learn flexibility. In negotiation, you rarely get exactly what you want. Getting close or achieving an acceptable alternate is equivalent to total victory.

Establish a reputation of trustworthiness. If you promise to call, do so. If you say, "I'll get you that information," get it. Remember there is a severe discount factor for lack of trust. You can never quantify the amount of the discount. No one ever asks for a pound of friendship or a bucket of integrity but they are always willing to pay (in the form of granting concessions) if you deliver friendship and integrity in the negotiation process.

*Display Knowledge of the Subject Matter*

An interesting phenomenon I mentioned earlier in this chapter is that if you convince your adversaries that you have extensive knowledge—even though you really don't, you may win many points when your adversaries overestimate how savvy you really are. They may abandon a negotiation strategy thinking: "He's too smart for that to work." The kind of knowledge you want to display to your adversary in a negotiation falls into two categories:

1. *Actual knowledge.* This is the knowledge obtained by one's own private experiences and education. You can easily increase your store of knowledge by talking to outside professionals prior to and during negotiations. Never be afraid or shy to ask questions from someone in the know. The only stupid question is the one you didn't ask! Having discussions with experts or people on your side is essential to obtaining the information you need to shape your approach to any upcoming negotiation.
2. *Apparent knowledge.* This is the broad, or even superficial information that a negotiator exhibits when discussing a particular subject. When coupled with a smooth authoritative delivery it can prove very effective. It may involve knowledge that the negotiator gained from comparable negotiations with comparable adversaries in comparable situations. For example, if you're dealing with a loan officer from a new bank and you've dealt with loan officers from other banks, you can assume that the same corporate procedures and mentality will be found. Displaying your knowledge of loan procedures to the new loan officer will make the officer less likely to pad the bank's fee, and more likely to make the adjustments you ask for.

### *Organize Your Information: Donald Trump's Spiral Notebook and Other Tools*

If you want to develop this highly desirable characteristic it is essential that you develop a work habit and an infallible method of filing information for *immediate* retrieval. You will find this a lifesaver when you're under stress. I suggest you use a simple spiral notebook, not a loose leaf one where pages are removable. If you look at Donald Trump's desk you will see his spiral notebook in which he chronicles all his telephone calls and things to do. If it's an important work habit for him, why not for you? Stop writing notes, telephone numbers, or other information on the back of envelopes or on those treacherous little colored tags that stick to anything and tend to disappear when you try to find them.

Another great technique is creating a checklist of open issues, which is subject to constant revision. As you get more involved in real estate you will find that one deal looks like many others and it becomes difficult, if not impossible, to keep the status of negotiations separate. An up-to-date checklist helps immensely.

Another valuable tool is a "we-they list" of the different positions taken by each of the parties. This will clarify the *zone of uncertainty* mentioned earlier. It helps tremendously to write down the key facts about which you and the other party have fundamentally different and conflicting perceptions and beliefs. These need to be faced and attacked to enable the transaction to reach a mutually acceptable conclusion.

I supplement this "we-they list" with a "wish list" in which I jot down how I would like to resolve certain issues, or get the other side to accept a new concept. This is a valuable aid because it forces me to think of possible solutions and scenarios to make them a reality.

Somewhere in the midst of negotiation, I also recommend you prepare a scorecard in which you name all of the players, identify their roles in the transaction, and evaluate their plusses and minuses, to help you understand what each person wants, what you can offer them, and how they could help or hurt your position in the negotiation.

These tips are not meant to be all-inclusive but they constitute a strong foundation on which your own unique style of organizing information can be built.

### *Improve Your Knowledge of Human Nature*

Many of the following basic truths may seem obvious and simplistic to you but I doubt you have spent a substantial amount of time analyzing the impact they have on the outcome of negotiations. Researchers in the field of negotiation have done extensive, comprehensive experiments to prove the validity of these concepts. I cannot stress too strongly that the time you spend making them part of your base of knowledge is time well spent. It will be extremely helpful in your future negotiations.

- *Create exclusivity.* I mentioned this in Chapter 3 but it's so important it warrants repeating: People want what they can't have or somebody else wants. If someone announces: "That's not for sale at any price" everyone thinks that there must be some price at which it can be bought. This concept is found at the heart of all auctions. The more bidders for an item, the higher the bids and the more spirited the bidders.
- *People become overwhelmed when they are faced with too many decisions.* Once you accept this fact you can easily understand why it is best to use a "little at a time" approach. Just imagine that you want someone to swallow a pill the size of a golf ball. If you tried to give it to him at one time, he would choke on it. If, however, you cut the pill up into little pieces and gave it to him at various intervals, he would swallow the entire pill and never realize what you made him do.
- *The "aura of legitimacy" phenomena.* I discussed this extremely important topic in Chapter 3. If you're still unclear about its power to work for you or against you, I suggest you reread that chapter.
- *Satisfaction.* Everyone in a negotiating situation has a "need for satisfaction." People want to believe that they have conducted a successful negotiation and have won hard fought concessions

from you. To satisfy that need you must learn to hold back. Be stingy with your concessions even though they may be of little importance to you, the fact that the other side got you to give in on an item is considered a win for them. Because winning a hard fought issue, which was the subject of protracted negotiation, creates the feeling of deep self satisfaction in the winner it is important for you to leave time in the negotiation for this to happen. Learn to cater to the needs of individuals. Tell them how they out-negotiated you and drove such a hard bargain. Tell them they got an unbelievable price and you don't know how they did it. Everyone likes to be flattered. Do it, even if you feel that you might choke on the words.

- *People have an innate fear of superiority in others.* While it's important to display your knowledge of the subject matter in a negotiation, you don't want to appear so smart that people are afraid to deal with you.

  In recognition of this you must sometimes adopt the principle that "dumb" is "smart." Sol Goldman who will be discussed later was a multimillionaire with a humble background as a grocery vendor. Notwithstanding his lack of formal education, he had one of the sharpest minds I ever encountered. He was a brilliant negotiator who played a major role in my successful growth as a negotiator. He could remember anything and everything about any piece of real estate or anyone in the real estate arena. In any negotiation the other parties never had a clue as to the extent of his proficiency. If someone said something he needed time to consider, he'd say, "You people are much smarter than I am. Could you please give me a simpler explanation that my small mind can understand?" He knew full well what was being proposed as well as what his answer might be. But, often the simplified explanation was more attackable than the initial one, and if that was true he would respond to that one. His delay in responding also gave him the time to sharpen his response and then deliver it as if he were a local yokel shooting from the hip without considering the depth of the subject matter. When Sol Goldman died in 1987, his real estate holdings were appraised at over $700 million and reputed to be second in size only to the holdings of New York City. Not bad for someone who gave the appearance of being dumb.

- *Ziff's Principle of Least Effort.* As I mentioned in Chapter 1, Ziff was a researcher who concluded that in any negotiation people will expend the least amount of effort to arrive at a result. You can use this principle to your advantage by agreeing to do all the work that the other side really doesn't want to do. Tell the other side that you know how busy they are and you will take a load off of them by doing much of the menial work. Besides appearing to be helpful, if you are the party who originates and controls the documentation and preparation of financial information relating to any transaction you have a huge edge. You know what you put in the documentation and what you left out. The reader has a tendency to be trapped by the written word and concentrates on what he sees, not what he doesn't see. Let Ziff's findings work for you.
- *Everyone loves a "freebie."* This principle is the cornerstone of many successful marketing and sales strategies. "Buy one get one free." "If you take advantage of this special offer, we'll send you another gizmo absolutely free." "Buy today and we'll pay the shipping charges." The list is endless but it works. Try to come up with something you are willing to throw into the deal without charge and that minor inducement might win the day.
- *People believe in the "one good turn theory."* "One hand washes the other" and "One good turn deserves another" are considered by most people to be the fair way of doing business. I tend to

agree with that bit of philosophy. However, it doesn't mean that an equal exchange is required, just that there be a quid pro quo. There's nothing that says your "quid" must have the same value as their "quo." Embrace the concept but slant the exchange in your favor. Others will be so enthralled by your fairness that they forget to weigh the respective benefits of the items exchanged.

- *Everyone is influenced by the power of a simple solution.* Somehow "Let's split the difference" seems only fair to most people. Throw it out as a solution if it's in your interest to do so, but if it's offered to you, don't accept it if you think it's not fair to you. "Let's discuss this later" is an easy way to avoid locking horns over an issue where feelings run high.
- *People appreciate a person who can say, "I made a mistake."* Suppose you made an offer to purchase a building for $200,000 and the offer was accepted. After further consideration, you told the seller that the cost of needed repairs was much higher than you thought and you wanted to reduce the purchase price by $40,000 If the seller accuses you of bad faith and reneging on your agreement just say, "I'm terribly sorry but I made an honest mistake and you wouldn't take advantage of that, would you?" That admission may get you part or all of the $40,000 discount you asked for.
- *Most people are stricken by the "deadline syndrome."* Just before time runs out is the most effective time to win your objective. When your opponent is facing a deadline such as, "I have to report to my boss by 3 P.M. today" closing open issues happens quickly after 2:45 P.M. Find out what the other party's deadline is, wait until the last minute to resolve key issues, then see the favorable result you get.
- *People want their "invested time" to pay off for them.* I discussed how the "invested time" principle works in Chapter 3. Donald

Trump and I have used it to achieve results that we originally thought were not attainable.

*Finding and Exploiting Weaknesses*

Information is power in a negotiation. I have to derive information from you, and to do that, I have to ask you a lot of questions. If I said to you, "Are you really in such a bind that you have to move out of your property in the next few weeks?" You're never going to tell me yes, because that's going to hurt your negotiation posture. So instead, you say "I want to move in by the end of the year." And I respond by saying, "I don't know if that's possible, suppose I gave it to you three months later?" You reply, "I can't use it three months later, I have to use it now." Without you realizing it, you just told me you're in a bind. All I did was throw out an alternative, and you said that "I couldn't live with the alternative." Which effectively got me the answer to my question.

Another indirect question might be, "What if instead of us paying all cash, you take back a mortgage for $25,000?" If the reply is, "I really need the cash to pay off the debt to my bank." Guess what—you've discovered a weakness that you may be able to capitalize on. Sometimes a timing question elicits a helpful response. You pose the following question, "Would you be upset if I extended the lease commencement date by three months?" The answer, "I can't do that, my present lease expires in 60 days." You have just gained valuable information without asking a direct question which might not be answered truthfully.

In another situation I might say, "Why do you want to sell it now?" "Well, the truth is I'm not feeling well." Now I found out why he's selling. Also, I could ask a seller, "Have you heard about this or that" and he says no. Now I've got a feeling if they're in tune with the market. Again, information is power in a negotiation.

One of the things that can significantly weaken the other side's position is when they have rejected your offer to take a better offer, but that falls through and they come back to you. In a case like that, you can press your advantage, as I once did when negotiating the purchase of a radio station, WGLI on Long Island in the late 1960s. The seller initially wanted $500,000 all cash. My brother-in-law and I were partners and we offered $450,000—$50,000 in cash and a $400,000 mortgage. Their lawyer rejected the offer and said "we have an all-cash offer of $500,000, which we're taking." A month later, the same lawyer called me and said, "the other deal fell through, we will accept your offer." Well now he's in my ballpark! I said, "What offer?" He said, "Well, you said you'd pay $450,000 with terms." I replied, "Yes, but unfortunately that was a month ago. We have since invested the bulk of our money in several other projects. But if you're willing to recast the deal, we will think it over." I went to my brother-in-law and said I think they'd accept $400,000 with $100,000 down and the balance in a 4 percent mortgage. "Go ahead," he said. So I made the offer, and they accepted it! That's how I got into the radio business, on extremely good terms—I exploited the seller's weakness.

### By George . . . The Sol Goldman Negotiating Style

Learn which techniques are most effective with the other side. If they hate paperwork, barrage them with paper. If they can't tolerate long discussions, drag them out. If they are intimidated by an angry outburst, display your anger when it is appropriate to do so. Sol Goldman once used this tactic very effectively in a negotiation I participated in before I joined the Trump Organization. Goldman wanted to buy a building, and he was willing to pay $15 million, all cash. (Goldman was a multimillionaire who became one of the richest men in America, and he had a lot of available cash on hand.)

Goldman initiated the negotiations by asking the seller, "How much do you want for the building?" The seller said, "$15 million, all cash." Goldman replied in a high-pitched screech, "W H A T!?"

Well, this was the price Goldman was willing to pay, and the seller was willing to take. But Goldman was so indignant in the way he said "WHAT?" The seller responded by saying, "Well maybe we can take a little less; how about $14 million, all cash." Goldman says again with the same high-pitched screech, "WHAT?! ALL CASH. YOU WANT ALL CASH?!"

The seller then said, "Well, maybe we can talk terms."

Now Sol Goldman never tipped his hand—he never said anything substantial—while all this was going on. All he said was "WHAT?!" at four different times. The seller thought he was so indignant, so insulted, that Goldman ended up buying the building for $12 million with terms! And all he said was "WHAT!"

You have to understand that as a young lawyer, working for Sol Goldman, I was ready to grab the seller's first offer, since I knew my client was ready to pay it. Instead, Goldman would negotiate without making a single counteroffer. He never said, "All I want to pay is $12 million." All he ever said was "WHAT?" "WHAT?" "WHAT?" "WHAT?"

Later on, Goldman inquired, "What's the interest rate on the mortgage?" And the seller replied, "8 percent."

Goldman again replied with another indignant and ear-piercing "WHAT, 8 PERCENT?!"

The whole tone of the entire negotiation made the seller feel that he was insulting my client. It ended up having an unbelievable result.

Later, in another negotiation with Goldman, he was ready to sell a building for $20 million. An interested buyer came along and offered him $20 million. But Goldman said, "You've got to do better than that."

So the other side replied, "Well, how about $22 million."

*(Continued)*

> Again, Goldman replied, "You've got to do better than that."
>
> Now Goldman had already made $2 million and he was willing to accept $20 million, but just by saying "You've got to do better than that," made the other side feel that they had to. Otherwise, they thought Goldman wouldn't make the deal. It was just a ploy—which worked! In this example, Goldman succeeded in a negotiation by giving away no information.

## Critical Dos and Don'ts of Successful Negotiation

The negotiation principles and techniques I'm describing are powerful, but they won't all work for you. It's important to adopt your own style of negotiating. Each person has a unique personality and method of negotiating. If you try to simply copy someone else, people sense that your trying to hide the truth of who or what you are. This will result in a quick turnoff because they feel you cannot be trusted.

- *Don't* talk about your weaknesses at any time or in front of anyone. Be sure to muzzle everyone on your side. Many deals are blown by nonnegotiators who couldn't keep their mouths shut.
- *Don't* believe in the "bogey" theory. Very often in real estate deals you will be told, "Look if you don't want the deal I have two others who do." Another variation is, "I've got a better price from someone else." Don't give those statements any credence. If there were any truth to the claim, they wouldn't be dealing with you, but instead they would be pursuing the other, better deal.

- *Don't* trust your assumptions. If you start with the belief that all your assumptions and estimates are wrong, you're never disappointed but you feel good when you find out some of them were right.
- *Don't* assume the other side knows what you know. Find out what they know during the course of negotiations.
- *Don't* accept any offer right away. Hold back. Remember that the other side wants a sense of "satisfaction" out of the negotiation. Don't make things too easy for them or they will wonder how much money they left on the table.
- *Do* be indecisive to drag out the negotiation. (Remember creating a "time investment" by the other side is helpful in obtaining a satisfactory conclusion.)
- *Don't* do quick negotiations. In quick negotiations, one side gets an inferior deal. The exception is when you are clearly more skilled and more prepared than the other side. Skilled and well prepared wins in quick negotiations.
- *Don't* use all the power you possess. Always leave the door open for future dealings. This is a critical necessity in any long-term relationship.
- *Don't* forget that there's no right price for the wrong property.

## P.O.S.T.-Time for Negotiators

Negotiation is like a horse race, but the secret to winning is running a smart race. Before you go into any negotiation think of each key meeting with the other party as your "post time." For example, at your first meeting, you know little or nothing about the opposition and what the outcome will be. Use the P.O.S.T. acronym to prepare for your post time:

**P**—Stands for the persons attending the negotiation. Learn who they are and their functions. Never negotiate if there are unidentified people present. Find out who they are and what role they will play in the deal. Learn who is decision maker for each element under discussion.

**O**—Stands for the objective you wish to accomplish at the meeting you are attending. Figure this out before you start any meeting. Your objective must be measurable by the end of the negotiation meeting to be useful. If you believe your objective in an initial meeting is to finalize a deal, you're aiming at the wrong target. A better objective is, "Let's see if the seller is someone I want to do business with." That's a clear target, easy to measure.

**S**—Stands for the strategy you intend to use in the negotiation. This is your game plan or overall approach that you intend to take. The strategy will dictate who talks on what topics, who answers specific questions raised at any time, and who makes notes of what was discussed and what the result was of such discussion.

**T**—Stands for tactics to be used. This is a subcategory of strategy. It is the "nuts and bolts" to be used for the implementation of the game plan. For example you might say, "We're going to use the good guy-bad guy approach. Sam, I want you to play the tough guy and appear to be hard-nosed and inflexible. I'll play the good guy and act as a mediator." How you script the negotiation is up to you but don't go into one without knowing what you plan to say or do. However, your tactics should differ if there is a long-term versus a short-term relationship being created. Long-term relationships must be nurtured with an abundance of tender, loving care. You can be more aggressive in negotiations that involve short-term relationships.

*Post-Negotiation Review*

It is extremely important that a review be done as soon as possible after each negotiation. This is an absolute must! At the review, the following questions should be asked and answered:

Were the objectives achieved? If not, why not?

What was good and what was bad in the negotiation?

What changes should we make to our prior assumptions?

What about next time? Was a schedule set? Were there assigned tasks to be done? If so, who has to do them and when?

After all these questions have been answered make appropriate notes and put them in your infallible file system for immediate retrieval when necessary.

## Telephone Negotiations

Telephones are part of every negotiation, but telephone negotiations have advantages and disadvantages. The main advantage is time savings. Telephone negotiations can be easily conducted at a specific time acceptable to all parties. Telephone negotiations are convenient and with the advent of cell phones, calls can be made to or from almost anywhere. Conference calls are also valuable for bringing together many interested parties regardless of where they are located. Despite these obvious advantages the telephone has some distinct drawbacks.

*Telephone Traps You Should Know*

- One party will often forget something in a telephone negotiation, because both sides tend to prepare less for a telephone negotiation. The only question is how important the forgotten item is.
- You lose the chance to read facial expressions and body language. This can be significant, especially early on in a negotiation.
- One party to the call is always unprepared unless the call was scheduled in advance, and there was a specific understanding of what would be discussed. You should never be the one unprepared.
- Interruptions are deadly. Anything that interferes with one's chain of thought can lead to disaster.
- During a telephone negotiation you never know who may be listening and why they're listening. Even if you ask, "Is anyone else on this line?" you may not get a truthful answer.
- During a telephone call you cannot examine any documentation which is referred to by the other party. They may say, "I have statistics which show your building is overpriced." You can't refute what you cannot see.
- In telephone negotiations there is always a tendency toward resolution. Before the parties hang up they like to feel they have accomplished something, usually some type of agreement on one or more points.

The key to mastering telephone negotiations is learning to listen! When you answer the call, just ask the caller, "What's the purpose of this call?" Then relax and just listen carefully. If you don't talk the other side must talk or there is an awkward silence that people find intolerable. After you have listened and gotten all the information you wanted, tell the caller that you will call him or her back. This gives you the time necessary to craft a proper reply.

When you call back, do it from a quiet place at a good time, to minimize the chance of interruptions. Have all pertinent material you need readily available before you participate in a telephone negotiation. Helpful tools include a checklist which serves as an agenda, and a calculator in case it's needed. Take good notes during the conversation and put them in your spiral notebook. When the call is over, see that the notes go into the appropriate file. It's a good policy to confirm the conversation and the agreements reached by a follow-up letter, fax, or e-mail.

## Using Deadlocks, Deadlines, and Delays to Your Advantage

### *Deadlocks*

When both parties have reached an impasse (i.e., a deadlock), ask yourself if a deadlock is appropriate at this time and on this issue. A deadlock usually results from constraints placed on negotiators by someone on their own side. If you think you have reached a genuine deadlock, and you opt to leave the negotiation, be pleasant. Smile when you walk out and say something like, "I'd really like to buy your property but your price is not realistic." Always leave the door open for "face saving" (e.g., "I'll give it some thought.").

If one party welcomes a deadlock, that party has a distinct advantage. A deadlock does not necessarily represent the end of a negotiation, or even a failure, but most people view it as such. In many cases you will learn of the availability of other concessions from the other side, if you let a negotiation reach a deadlock on an issue.

Big organizations dread a deadlock because they view a deadlock as failure. But savvy real estate investors know that deadlocks are not failures and can always be broken. This gives you an advantage when dealing with a big organization.

In many cases, you should welcome a deadlock because it clearly shows your determination to the other side. A deadlock also tests the other parties' determination. If they say, "That's something I refuse to accept and I'm leaving," see if they actually go out and stay out. Often if you call their bluff, they will retreat and accept your position or suggest an alternative. Try to orchestrate a way for them to gracefully come back to the table and accept your position or suggest an alternative, without losing face. If the other side accepts a deadlock it proves to you and your side that "it's the end of the road" on that issue, though not necessarily the whole deal.

### *Breaking Deadlocks*

One way to break a deadlock is simply to change the subject that caused the deadlock and shift to other areas. The issue may still be unresolved but if agreement is reached on other items the mood may be changed and the deadlock issue can be revisited in a more amicable environment.

Another way to break a deadlock is to go "off the record" and try to open an avenue of resolution through a different person, perhaps at a different level in the opposing party's organization. Or you can offer to get the opinion of a mutually respected third party.

If you do intend to break a deadlock by caving in, you should at least insist on getting a minor concession in an ancillary area to maintain a degree of credibility.

### *Using Deadlines to Your Advantage*

Most people wait until the last minute to resolve open issues in a negotiation. An interesting experiment was undertaken by a noted researcher in the field of negotiation. He assembled a group of

100 negotiators with varied degrees of skill to participate in a mock negotiation. The participants were divided into two groups on opposite sides of the following imaginary situation. A large pharmaceutical company had developed a drug, which they publicized as having some minor side effects such as occasional dizziness or headaches, but they also knew that it could lead to possible blindness or serious loss of sight.

People were suing for serious injuries suffered. The negotiators were split into teams of two, one person representing the drug company and the other person representing the claimant. They had to reach a settlement within 60 minutes or a deadlock would be declared and negotiation cease. A bell would sound every 10 minutes and an announcement made specifying the time remaining. During the last 10 minutes the bells and announcements sounded every minute. The experiment disclosed that over 90 percent of the claims were settled in the last 5 minutes. The lesson for real estate investors is, "plan on doing the real intensive negotiation just before a deadline expires."

The worst deadlines that have to be faced are those that affect your side. As the deadline approaches, the other side has the time to remain flexible but your hand is quickly being forced to make a deal, under potentially unfavorable terms.

It is important to know which deadlines are real and which are fictitious. If someone says, "I must have your answer by Friday." Tell them you have to check things out and won't have the answer until the following Wednesday. If they say, "Okay," you know the deadline was not really a deadline. If they have a plausible explanation for the Friday deadline—it's real.

### *Delays*

It is a fact that every transaction will meander unless there is a compelling reason to consummate it or kill it. If you want to speed things up, take control by setting acceptable time frames and insisting that they are met. If you take the time to coordinate the schedules of all necessary participants you can avoid unforeseen delays.

Try to establish as many "parallel tracks" as possible (i.e., lots of people working on different parts of the transaction in the same time period). To the extent that the other side has multiple people working on the transaction (the broker, lawyer, inspector, etc.) it adds to their "invested time" account.

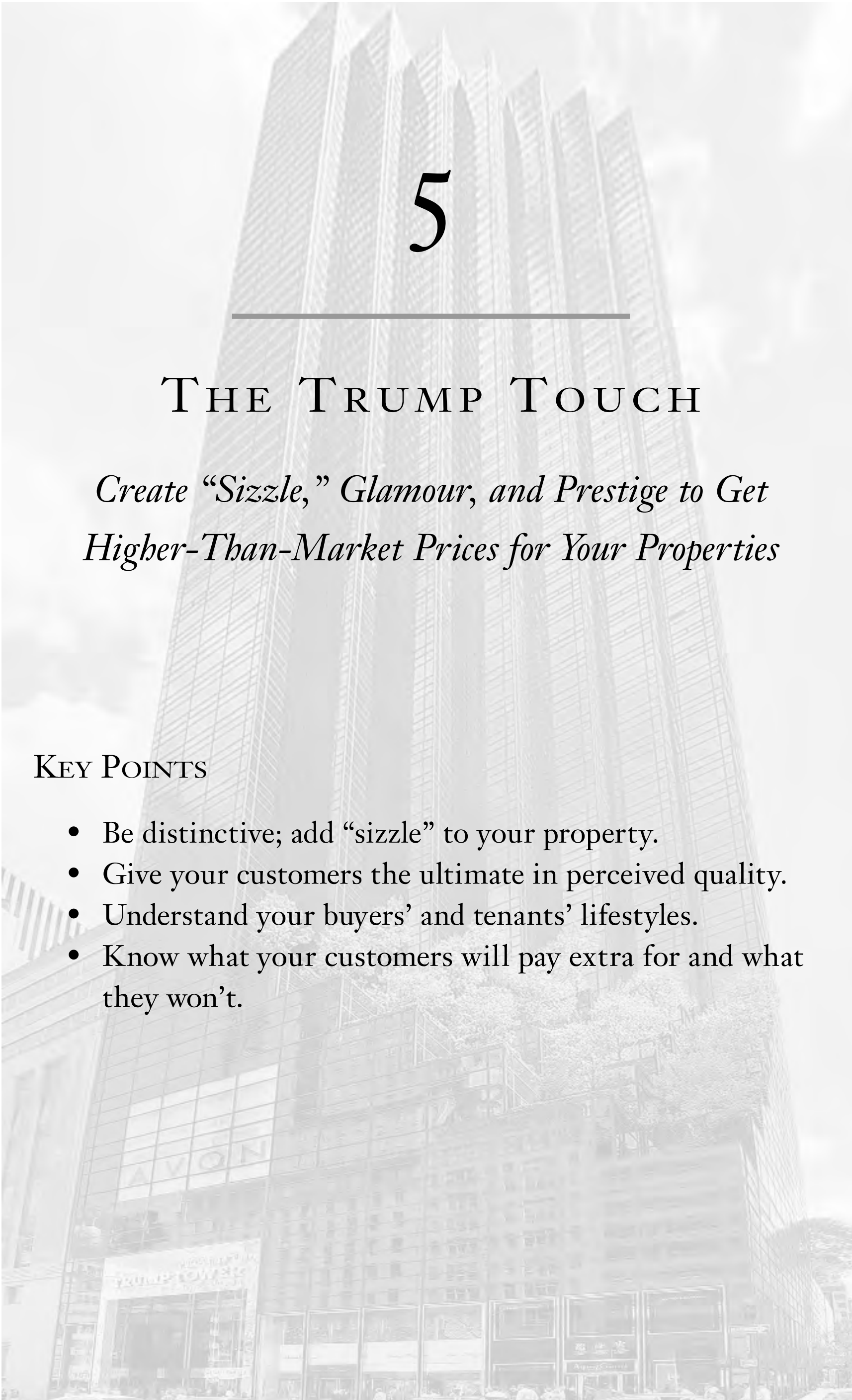
Murphy was right when one of his laws stated that everything takes longer than you think. Unless a delay works in your favor, take the necessary steps to keep the transaction moving at a reasonable pace consistent with the size and complexity of the deal.

## More Tactics and Countermeasures

*Take it or leave it.* That statement is considered to be fighting words, and the recipient of that ultimatum is usually seriously offended by it. To minimize the adverse effect try to tone it down by saying, "I have other offers" or "Here's a comparable building at a much lower price." Try to leave yourself a way out for face saving should you decide to come back at a later date. The good things to be said about using "take it or leave it" are that it shortens negotiations and shows the resolve of the party taking that stand. The countermeasure to "take it or leave it" is to change the parameters of the discussion. Try to look for other areas that need further dialogue which may help reduce the tension that the ultimatum created and ultimately eliminate it as a factor.

*You've Got to Do Better Than That* (aka "The Crunch"). If you say "You've got to do better than that" to someone their normal reaction is to modify their position in your favor. If you say it again, they'll probably go further. Note that you never indicate that you will accept their modified position. You're just fishing to see if there's a better deal available. The countermeasure is simple, just say "I already have offered a fair deal, there's no reason for me to make it better for you."

*The Change of Pace.* This tactic involves changing a cooperative atmosphere into a negative or somewhat hostile environment or vice versa. This can be an effective tactic if you're intent on making the deal and are afraid that the other side is backing off. If you stirred things up, you can always retreat and appear friendly by doing so. If the other side changes the negotiating environment for the worse, the effective countermeasure for you is to reaffirm your previous assumptions and create a "bogey." As an illustration, you could say, "After all we've been through I thought you really wanted to make this deal. Do you? If not, I have another piece of real estate I'm ready to buy."




# 5

## The Trump Touch

*Create "Sizzle," Glamour, and Prestige to Get Higher-Than-Market Prices for Your Properties*

### Key Points

- Be distinctive; add "sizzle" to your property.
- Give your customers the ultimate in perceived quality.
- Understand your buyers' and tenants' lifestyles.
- Know what your customers will pay extra for and what they won't.

A KEY PART OF Trump's real estate investing philosophy is his passion to ensure that whatever he is building or renovating is the epitome of its type in terms of quality, prestige, beauty, workmanship, and meticulous detail. The creation of perfection is why, in 2003, nine out of the top ten highest selling condominium residences in New York City were in buildings built by Trump. Trump properties consistently command a high premium over comparably located and comparable sized properties because of the special exciting features that embody what the industry recognizes as "the Trump Touch." If you want willing buyers to pay higher prices for your real estate, you must include unusual, dazzling features that will appeal to buyers or tenants on several emotional levels. Trump Tower on 5th Avenue is a prime example of how this kind of "sizzle" can increase the value of a property far beyond the cost of creating the sizzle. In the following case study, you'll learn techniques that Trump uses to get the highest prices in the market for anything he sells or rents. I'll also show you how you can apply the same techniques, on a smaller scale, to your own real estate investments.

## INVESTING CASE STUDY

### Trump Tower on 5th Avenue

Imagine yourself in midtown Manhattan walking down the most fashionable part of 5th Avenue. When you get to 56th Street your breath is taken away by a towering, modern, distinctive building with a unique jagged facade of black glass. As you look up, your eye catches a grove of 16 full-size trees planted on six floors of terraces the lowest of which is 50 feet above the level of the sidewalk. Upon entering the 68-story tower, you are flanked by attractive show windows of renowned retail stores. You marvel at the highly polished floor of exquisitely matched marble slabs which lead into the spacious high-ceiling tree-lined lobby that ends at the huge seven-story atrium. Tumbling down the far wall of the atrium is a 100-foot waterfall against a marble wall that is topped by a large angled skylight that illuminates everything below. The lower level of the atrium houses two fine eating places, one of which is a tempting elaborate buffet and the other has starched white tablecloths and elegant décor. Both facilities have excellent food prepared by a master chef. Surrounding all of the furnishings, you notice the perfectly matched marble-lined walls and the attention to detail this interior space was given. Highly polished brass is everywhere. Off to the left of the main entrance is a bank of elevators housed in mirror-finish brass doors. As you approach the elevators, a well-dressed security man asks you whom you are visiting. After receiving the approval of the party you intend to visit, you are permitted to enter the high-speed mirrored elevators to take you to your desired floor.

This is how people experience the lobby and office portion of Trump Tower for the first time. It is dazzling, and proves Trump is a master at creating awe-inspiring buildings. The residential portion of the building is a world unto itself. It has its own private entrance on 56th Street with 24-hour doorman and concierge service. The reception desk is staffed by uniformed personnel who are trained to recognize all residents and screen all visitors. Once visitors are cleared, they are permitted to enter one of the immaculately clean elevators where a uniformed operator inquires as to their destination and whisks them to it.

Because magnificent views command higher prices, Trump designed the building so that the residential portion of Trump Tower,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which contains luxury condominium units, would top the structure starting at the 28th floor and rising to the penthouse on the 68th floor. The views were enhanced by increasing ceiling heights, installing oversize windows, and using the jagged facade to create multiple corners with windows facing different directions. By adding a luxurious health club, fitness room, and other amenities, Trump Tower achieved the highest prices per square foot ever received for condominium units in New York City at the time it was completed. Now that you have a sense of the finished product, let's look at how Trump conceived and executed this fabulous real estate development, and how it paid off for him.

Before Trump Tower was built, the site was owned by the parent company of Bonwit Teller, a fast-fading department store chain. The building was an Art Deco box-like building that had long outlived its usefulness but the location, on 5th Avenue in midtown Manhattan, was one of the most prestigious in the entire city of New York. Although the purchase price for the property was high, Trump believed that the location warranted it and a huge profit would be his if he could maximize the site's potential. Trump believed the ground floor of a new building and the three floors above it could bring very high rents (in excess of $500 per square foot) from major retailers who coveted a 5th Avenue location for a flagship store. He also believed that the high floors with their great views were ideal for the creation of luxury condominium units that would sell for high prices. The middle floors were the problem area that required innovative thinking to obtain maximum benefit from their use and make the investment work. Trump decided to use them as office space knowing full well that it would take creative marketing to get the rents he desired. Thus, Trump's vision of a three-tiered, multi-use condominium building was born. In the late 1970s, a development of this type was very unusual.