

My Two Friends? "Luck" and "Timing"

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If you have been in real estate development for any significant amount of time, you have run across my two unreliable and unpredictable friends - "Luck" and "Timing." I dare call them friends because without them I wouldn't be who I am professionally, so they have helped me grow. They have brought me joy and caused me pain, as only true friends can. And they have always been with me regardless of circumstances. But after all these years I can't figure them out . . . and I certainly can't control them.

Timing and luck can make or break you. Just ask some industry experts who experienced the good and bad of these in 2007. Or ask me, because I've seen their good and bad sides as well.

In September 2001 I was set to open the model apartment for a new condominium project in Tribeca, NYC when the 9/11 attacks derailed my plans. Of course, there is obviously no comparison to be made between the horrific personal tragedies that surrounded the events of 9/11 and the faltering of a proposed real estate project, but my points are being made purely from a strategic professional perspective so please accept the analysis for what it is. Now, as Mr. Luck would have it, with an assist from his companion Timing, the patriotic dedication of contractors and professionals to finish up the project and the pent-up residential demand that followed a stretch of inactivity turned the project into a resounding success. Again, as a purely professional anecdote, the pendulum of luck and timing can swing fast in either direction.

On the other hand, in August 2007 I signed an above-market lease with a hungry home improvement retailer to lease space in a dense "do-it-yourself" population during an unprecedented residential expansion. This deal was going to anchor over 750,000 s/f of mixed-use development. Along came the bad sides of Luck and Timing, and along came the now famous "credit crunch" which led to the termination of the lease and the postponement of the project until better days. There will be those, right?

So what can we learn? You can try and make your own luck and you can try and predict the correct timing of transactions, but really how much of it can you control? This is pervasive across all businesses. For every corporate executive who can't increase productivity and distribution of his or her great product in 2010 because the entrenched IPO market, there is the example of the 1999 E-toys executive who enjoyed the benefits of free-flowing capital.

So how do I sleep at night? How does one prepare? And how do you ensure partners, lenders, municipalities and tenants that you are close enough to Luck and Timing that you can mitigate their damage and capitalize on their eventual support (yes, time has shown they will eventually always support you). Well, when I do sleep, I reject a dose of Ambien and instead rely on a few key principles. I can not be solely at the whim of luck and timing and my experiences have educated me on how to adapt.

First, I remember what I read from an esteemed business author: focus on things you can influence

because it's a waste of time to focus on what you can't control. Thus, it has been my personal belief to conceive, create and execute viable projects regardless of any cycle (most sizeable projects traverse over more than one cycle anyway).

If I put my head on the pillow knowing that the product being created is founded on good real estate fundamentals like transit, walk-ability, demographics, visibility (i.e. tourism, education), political support, smart-growth, and environment preservation, I am comforted that I have minimized the impact of luck and timing. I also remain flexible, being able to adjust to what luck and timing may throw at me. Being able to mix or vary uses, break large projects into several smaller projects, and alter the pace of pre-development will all play a major role in being able to weather any storm and turn the bad into the good. They are also elements which I can influence by preparing well and tightly managing the pre-development process. Capital availability, interest rates, tenant expansions, residential demand and the like all shake with excitement or fear at the thought of landing on one side or the other of luck and timing. Yet, sound and long-term real estate fundamentals can outlast the wavering tides and make great urban environments even stronger.

Accordingly, the Street-Works development team works collaboratively on keeping a steady course of bringing to the market tomorrow's next distinguished project. Our guiding philosophy is that principle and discipline carried out with integrity and persistence will prevail.

Next, I learn to embrace luck and timing, especially when it is in our favor. I give thanks that at the moment we are fortunate neither to be close to construction on any project, already in the ground on a project, or carrying a large amount of land waiting for development. I could say we were visionary, with an aptitude of predicting the ebbs and flows of luck and timing, but frankly, we just happen to benefit from where our projects are positioned today. We are in pre-development on several projects that, notwithstanding the challenges of the economy, could not and should not break ground for at least two years because of many factors including consensus building, thoughtful planning, extensive permitting and public funding. There are many in the industry struggling with poor luck and timing (I won't name them - - why rub salt on a wound - - I wouldn't want it done to me). In my opinion, those parties need to abandon projects that were not founded on basic principles and were only products of financial engineering or overzealous growth projections. They are on the wrong side of luck and timing and need to re-group. Yes, easier said than done, but accomplished in our industry in almost every decade since the 1970s. Conversely, they need to hold on to good real estate. Lender workouts, new capital, and other restructuring, coupled with patience and the flexibility I mentioned above, can overcome the current face-slap by luck and timing. In years to come, good projects with sound basics will regain tremendous value in a market cycle determined to be short of supply.

Thus, when I look at space demands, rents, capital availability, and the overall market of today, I remind myself that I am looking at today's version of luck and timing, which will bear little resemblance to tomorrow's paradigm.

And so I forge on knowing that we are shaping tomorrow's great projects with the influence that we have, and with the knowledge that luck and timing can only get better for our industry. And on those nights when I sleep, I dream of a lovely dinner some time around 2012 with my friends Luck and Timing. We will share a laugh.

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