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Peebles' Principles

A real estate mogul shares the blueprints for his success.

*R. Donahue Peebles is a highly successful real estate developer, with a \$4 billion portfolio of residential and commercial properties in the East, the West and Florida. Today, he lives in Miami, but he was born into a single-parent household in Washington, D.C. His book, *The Peebles Principles: Tales and Tactics from an Entrepreneur's Life of Winning Deals, Succeeding in Business and Creating a Fortune from Scratch*, offers aspiring entrepreneurs some lessons learned over the course of his remarkable career. Peebles recently spoke with former WORTH editor Matt Purdue about the upside of the real estate downturn and how, as a developer, he deals with the challenges of local politics.*

You have numerous successful real estate projects around the country. Why not stop and relax?

I DID MY FIRST DEAL when I was 26. By the time I was finished, I was 29. I was worth millions and I had an income of about \$400,000 a year from that one building. I could have stopped; I could have retired on that. But the entrepreneur is not driven solely by money. It's also a desire for self-actualization.

There are a couple of types of businesspeople. One makes that money and says, "Hey, this is great. I'm done. I'm going to retire, I'm going to protect what I've got and that's it. I'm going to enjoy life." Those people generally didn't like the business they were in. They did it because it was a means to an end and they made some money. The people who like the business they're in say, "Hey, it worked out. Now, how can I do this better? I made a few mistakes on this first deal. I'm not going to make those mistakes again. I'm going to go back to the drawing board, I'm going to try it again. Because I like what I'm doing, I'm going to see if I can do it better."

You obviously like that process. Does it differ when you are working in a hypercompetitive place like Manhattan?

IF YOU ARE in a particular business, and you learn it and you understand it, then it can become portable in terms of geographic location. The first building I did was \$10 million back in 1986, and it was a 100,000-square-foot building. I do the same exercise, exact same process, in building the \$1.6 billion project that we're doing in Vegas at Las Palmas.

One of the lessons I try to teach people in *The Peebles Principles* is, don't be afraid of numbers. If you're going to do something that's \$20 million and it's the same process as \$200 million, great. The same [is true] about development: The fundamentals are the same. The players are different, the process is different, and that differential you can hire. I can hire the top lawyers. I can hire the top architect. I can hire the top lobbyist, to the degree I need any kind of political stuff.

Los Angeles has a much more laid-back environment. Also, California—L.A., San Francisco—is a more high-minded business environment. Money is not necessarily the only element. It is a much more enlightened environment in terms of environmental [issues], in terms of taking care of other people. New York is a dog-eat-dog world. New York is capital.

There are also activists in New York who say, "You can't tear down that 200-year-old building!"

THE ABSOLUTE CENTER of that kind of thing is San Francisco. We were working on a project in a town called Pacifica. That city was essentially insolvent; it had about a \$1.5 million deficit on a \$22 million budget. [Pacifica is now meeting a budget of \$23.9 million.] My project was going to create a lot of money for that community—\$17 million a year, and its budget, total, was \$22 million.

But my site had been a rock quarry since the 1800s, and in fact provided some of the limestone when they rebuilt San Francisco after the 1906 earthquake and fire. Next to me is some land where the San Francisco garter snake and the red-legged frog exist. In an effort to stop development, years ago environmentalists tagged our site as an environmental habitat. Well, I went out and I hired an expert on snakes. We had 100-something traps. Within a year, we didn't find one San Francisco garter snake. We found three frogs.

The environmentalists opposed our project because they wanted us to re-create and make that into an environmental habitat and bring snakes and frogs from other parts of the area and put them there. This was the last development parcel in the city. Its whole economic future depended on that. We're moving on with our development process, but ultimately there will be a compromise.



In real estate development, is political know-how as important as business acumen?

WHEN IT GETS DOWN to the municipal level of politics, it's important to support somebody who has the capacity to win, and somebody who has the philosophical approach that I share about business. I've always had the philosophy about politics that you live to fight another day. The same applies in business. You don't go out and alienate people, and you don't go out and make enemies—unless you have to. You want to be able to work with whomever is in office.

I think people are naïve if they assume that you give somebody a campaign contribution and then that person is going to vote your way or do something to help you. What I expect is a level playing field and candor. And access. I want to be able to sit down and explain my position. That's what supporting someone will get you, or should get you.

What's your take on the current real estate downturn? Many investors are hurting.

FOR THE LAST THREE YEARS it has been very hard for a small or medium-size investor—those worth up to \$5 million—to make big money in the real estate market. Because people were paying such high prices, the prospects for appreciation were weakened. And then, of course, we've had our downturn. You make the most money in real estate when the market pulls back. Real estate is a great business because it's cyclical, and it runs in a 10- to 15-year cycle.

The advantage the wealthy had—and so much wealth was created after the big downturn in the real estate market in the beginning of the 1990s—is that they and private equity groups started to buy. And they were buying at great prices. The environment that hurts the overall real estate economy is better for those who have some capital.

Now is the time to buy, to get educated and gear up, to start getting your lines of credit in place. The key in real estate is that you make your money on the buy side.

And even as we stand today, the real estate market is better than it was at its peak in the 1980s. Forget about the abstract statistics that say we are down 25 percent from March of last year. Of course we are, because we were at such a stratospheric level that it only could go one place—down. But if you look at median price, you look at velocity of sales activity, we are still better off.

Why write a book?

I KNEW THERE WAS a market for a book like *The Peebles Principles* because there are really not many books like it.

Real estate is an entrepreneurial business; every building, every hotel is a new business. It has a lot of regulation to it, a lot of finance. It has some interesting twists. And there hasn't really been an entrepreneurial book out there about how someone with limited education and resources, starting off with no money, can build a successful business, create wealth and have some fun in the process.

I made the decision that if I am going to ask people to take the time to read the book and spend their money to buy it, I need to tell them the truth. And the truth is, not every deal works out the way you want it to. You're going to make some mistakes—actually, you're going to make a lot of mistakes—in the process. It's how you handle those mistakes and how you handle adversity that makes you an effective and successful entrepreneur. It's hard to understand how to handle those types of challenges without experiencing them. So the next best way to experiencing something is to read about it from somebody who has been there.

You have to be convinced that you have something of value to provide to the world.

TO BE SUCCESSFUL in anything—to be a successful person, to be a successful teacher, to be a successful writer, to be a successful businessperson—you have to believe that you are good at what you do, and that you can do it. If you don't, then you're not going to get to where you want to be.

You and your wife, Katrina, have two children, ages 13 and 4. What do you teach them about wealth and affluence?

I'M NOT INTERESTED in giving Donahue or Chloe all the things that I couldn't have. I make sure that I don't spoil my children, and I also make sure that, at a very early age, they understand that the world out there is broad and [there are people] from all walks of life. So they travel with us quite a bit. We contribute toys and food over the holidays to needy families, to needy schools, and Donahue has been going with me to do that since he was 4.

I have made sure that I expose Donahue to kids from all walks of life. That's one of the reasons I coached him in basketball for seven years now. And I bring kids from all different neighborhoods.

We talk about society, we talk about politics. Ever since he was about 6, we read a section of the *New York Times* every day. Every Sunday we would sit at the table and pick a section, and I'd read him something about world affairs and so forth. □