EXHIBIT V
This book is dedicated to my wonderful wife, Billie, the solid foundation on which the happiness and success in my life was built.
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
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...
TRUMP STRATEGIES FOR REAL ESTATE

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.

PRINCIPLES OF NEGOTIATION

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
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,
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 over-size 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.

The Trump Touch

One of the lessons for small investors to learn is to find ways, when possible, to put your property to multiple uses, with multiple income streams. If you can create a new use for the property that didn't previously exist, and a new income stream to go along with it, you will have dramatically increased the value of the property when its time to sell or finance. For example, if you have a rental property in the city, you may be able to charge extra for off-street parking, to anyone who lives in the neighborhood. Or you may be able to offer additional services to your tenants, such as Internet service or laundry facilities, for a fee. This strategy also helps to diversify the income from the property so it doesn’t come completely from one source (e.g., rents). This makes your income stream from the property less risky, and therefore more valuable.

This multi-use strategy worked brilliantly in Trump Tower, but there were several site-related issues that required resolution before Trump could begin to build. One major problem was the fact that the site consisted of utilizing more than one parcel of land. It included a ground lease on a 25 foot by 100 foot parcel on 57th Street that was owned by Leonard Kandell, an elderly, very savvy real estate developer and investor. Knowing that the ultimate success of the venture hinged on the size of the building he could build on the site, Trump tried to buy Kandell’s property but Kandell refused to sell it at any price. Trump’s only interest in buying Kandell’s parcel was because ownership meant that he would have the right to build a larger building. I enlightened Donald about the zoning laws that permitted one owner to sell and transfer unused building rights (commonly called air rights) from his property to the property of an adjacent owner. I told him, “If somehow we can get Kandell’s air rights you don’t need to own his piece of property.” Since Tiffany owned the adjoining property on the corner of 5th Avenue and 57th Street which also had air rights, Trump said, “Tiffany has air rights, too, so I’ll buy those.” He proceeded to negotiate a deal with Tiffany to buy the air rights over their site.
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in mind the huge size of Trump projects, and that relatively speaking, 15 percent is a big number. If we’re talking about building a $300 million building, then 15 percent represents $45 million.

Trump often has some group or large company participating as a partner. It may be a huge corporation such as General Motors (GM) or General Electric (GE). With partners such as these, Trump can get a very favorable large loan well below the prime rate and often without the need for a mortgage and payment of the recording taxes involved. Without these types of partners, Trump could never get that kind of a loan. When GM borrows from a bank, they get a low rate based on their credit, so Trump likes to work with these kinds of partners.

Working with monied outside investors enables him to participate in many transactions without a monster exposure of dollars in a particular development. The Trump Organization furnishes the time, the effort, the expertise, the staff, and the management for the entire project. The sole function of the outside investors is financial.

Small investors can and should use a similar approach in financing their real estate investments. This chapter describes key principles for raising money from banks and investors, such as establishing lender relationships, knowing how much to borrow, and knowing methods of attracting investors. These are all instrumental to successfully investing in real estate, regardless of the scale of your project. By following Trump’s principles for real estate financing set forth in this chapter, you can also avoid the costliest mistake many investors make—using short-term money for long-term projects.

INVESTING CASE STUDY

THE GM BUILDING

The GM Building in New York City is massive. Built by General Motors as its headquarters, it’s a two-million square-foot 50-story structure that fronts on 5th Avenue and Madison Avenue at the southeast corner of Central Park in Manhattan. It is one of the few buildings in the world that takes up an entire square block bounded by two major avenues. It is regarded as the premier office building in New York City.

When the property came up for sale in 1998 by a real estate investment trust, Trump felt he had to have it. However, one of the major drawbacks was a long-term lease of 400,000 square feet with a major law firm at a very low rent with many options for additional space as well as renewal terms. So, in effect, 20 percent of the building was frozen from future growth. That lease, together with other long-term leases at below market rents, were key negative factors. On the positive side, the building was prestigious, had a great location, and the tenancy consisted of companies or individuals that were giants in the business world making the building extremely attractive to major lenders who wanted the security of a stable rental stream.

The sales price of the GM Building was $800 million—all cash. The challenge Trump faced was obtaining a huge mortgage loan at a low interest rate, raising money for the balance of the purchase price, and raising sufficient working capital since the existing cash flow was anemic. The solution was finding a partner with deep pockets who could be induced to participate in a massive undertaking.

Quite by accident, Trump met Steve Hilberg who was the CEO of the Conseco insurance group, a public company loaded with money. They became friends and Trump proposed a plan in which he and Conseco would become partners, buy the GM Building, and make a profit of $300 million within one year by turning the building into an office condominium. Since major corporations had big blocks of space, Trump believed that they would rather buy the space they occupied than face a major increase in rent when their respective leases expired. Hilberg liked the concept especially since Donald Trump, who was a superstar in New York City real estate, proposed it.
They formed a joint venture in which Conseco agreed to put up the bulk of the money over a new mortgage loan that Trump was able to obtain.

Trump made a deal with Lehman Brothers that for a substantial fee they would commit to fund $700 million at a low interest rate acceptable to Trump. This amount—$700 million—was almost 90 percent of the purchase price—a very high loan to value ratio. Since the loan was top heavy, Lehman required some guarantee to induce institutional investors to participate. Trump persuaded Conseco to give the lenders the guarantee they wanted, to cover what the lenders perceived to be excess loan proceeds. In order to achieve a low interest rate, Lehman had to syndicate the loan (i.e., split the loan into several pieces, each of which would have a different degree of risk and a different interest rate, and would be sold to a different investor). The first mortgage loan of $500 million was layered in $100 million increments. The lender with the bottom layer would have the highest priority of payment, but would receive the lowest rate of interest. The lender with the top layer would have the lowest priority of payment but the highest rate of interest.

For the remaining $200 million of proceeds, a secondary loan was created that was subordinate to the primary loan of $500 million. In a manner similar to the primary loan, the secondary was also layered to cater to investors who had different appetites for risk and reward. The secondary financing was coupled with the Conseco guarantee so that it would carry a lower interest rate than one without a guarantee. Conseco and Trump funded any additional funds required to purchase the building as required under the joint venture agreement. When and if additional monies were required for improvements or other business purposes both Conseco and Trump would fund their proportionate shares by means of interest bearing loans.

As I mentioned, the building was purchased with the intention of transforming it into a commercial condominium and selling the units
TRUMP STRATEGIES FOR REAL ESTATE

to the existing tenants (GM, Estee Lauder, etc.) plus other Fortune 500 companies desiring offices in what was considered to be one of the most prestigious office buildings in New York City. Although office building condominiums were popular and successful outside of New York City, that trend had not worked in New York. Developers who tried it were unsuccessful and usually abandoned the concept. Undaunted by this track record, Trump filed a condominium plan for the building and the state attorney general approved it.

Recognizing the possibility that the condominium concept might fail, Trump told me that my number one priority was to position the building to prospective tenants in such a way that it could command rents of $100 per square foot—an amount never before achieved by office buildings in New York City. He said that he would make the necessary improvements to attract tenants willing to pay top dollar for luxury. I said, "Donald, if you do that and we give the building the 'Trump touch,' I'll get you the rent you're looking for." True to his word, Trump started his extensive and expensive renovation plan. I obtained possession of all the commercial space in the unsightly, open, lower-level commercial area known in the trade as "the pit." Trump transformed it into a new, tree-lined, aesthetically pleasing plaza area above street level. This created a direct, impressive 5th Avenue entrance that the building never had.

The main entrance lobby was still being used as display space for GM cars. Donald said, "George, I hate those cars. Figure out a way to get rid of them, so I can make the lobby a showplace." When I learned that GM was planning on selling its lease on the ground floor to CBS but needed the landlord's cooperation to make it happen, I used that as a wedge to get the cars out of the lobby and leased a substantial amount of space to CBS. Once the cars were gone, Trump rebuilt the lobby with magnificent marble floors with brass inserts and new lighting which enhanced the beauty. A striking 40-foot security/reception desk was installed with an equally striking ancillary concierge desk flanking it. All the building systems, such as electric, plumbing, and fire safety, were upgraded to be the latest technology available. All elevator cabs were refurbished and new mechanical components installed. Agreements were reached with all major telephone and data transmission services to provide tenants with access to the latest technology. Originally there were two entrances on Madison Avenue, one on each side of a Barbie Doll store run by FAO Schwarz. We made a deal with FAO to give up the Barbie store so that we could create one integrated building entrance flanked by two new stores. In return, FAO would get 50 percent of rent received in excess of the reduction it received when FAO gave up the Barbie store.

Everything I have mentioned didn't happen overnight but over a period of three years. During that period, some unusual things happened. I hired two major real estate brokerage firms to act as co-leasing agents for the building. When we bought the building, the prior owner had offered to extend the lease of an affiliate of U.S. Steel Corporation at a rental of $30 a square foot. The brokers thought that was a good rental for 9th floor space and represented a 25 percent increase. I disagreed and told them I would consider $90 a square foot. The brokers ultimately got the tenant to agree to $65 a square foot and set up a meeting with me to convince me to take it because that was the maximum rent the tenant would agree to pay and was a 62.5 percent increase. I refused telling them I anticipated getting rent of $100 a square foot or more after Trump did his magic. One of the brokers said, "George, you'll never see more than $65 a square foot for space in the GM Building!" Shortly after that meeting I fired that broker. If he didn't share the vision, how could he sell it to others?

When the building was bought we assumed there would be very little activity since it had virtually no vacancy and very few leases were close to expiration. That assumption proved to be wrong. A tenant on the 50th floor paying a low rental wanted out of their lease that had about two years to go. They paid me a healthy amount of money to
TRUMP STRATEGIES FOR REAL ESTATE

assume their obligation. That space was subsequently rented for $100 a square foot, proving our assessment of the rent potential was correct. Other tenants of the building also desired to vacate early and, each time, I agreed to assume their obligations since we were always well paid to do so. Within a period of three years, we received over $14 million in payments from tenants for the right to vacate before their leases expired. In each instance, we were able to rent the space to a new tenant at rentals ranging from $85 a square foot to $115 a square foot. Based on these results and the inability to get the requisite number of buyers necessary to declare the office condominium plan effective, I suggested to Trump and Conseco that they switch plans and reconsider the building as a long-term investment until its full potential could be achieved. Conseco agreed and based on its recognition of Trump’s stellar performance agreed to lower the interest rate on their investment. In preparation for a refinancing, I commissioned the independent appraiser who did the original appraisal when the building was purchased to do a revised appraisal based on the new rents we were getting, and the new “Trump Touch” the building now had. He reappraised the building at $1.2 billion—an increase of $400 million in just four years! In 2003, Conseco was suffering financially and they insisted that the building be sold at auction. The sale price was $1.4 billion dollars creating a profit of about $500 million dollars that was shared by Trump and Conseco.

MAKE LENDERS WANT TO DO BUSINESS WITH YOU

It’s highly unlikely that any of my readers need to borrow $700 million to buy the equivalent of the GM Building, but every real estate investor needs financing of some kind. How do you go about finding a lender willing to loan you money? If you have a good credit record, banks will be willing to loan you money. However, most new investors try to borrow money only when they need it. That’s a mistake. It’s when you don’t need money that banks are most inclined to give you a loan! When your financial position is strong, their risk is lower and you are an attractive borrower. When you really need a loan, the lender will ask you why you need it and then reach their own assessment of the reason you give. Don’t let banks do this. Don’t let banks make business decisions for you; their business is lending money not making real estate deals. They are conservative by nature. Real estate investors are risk takers by choice.

Here’s a simple method of establishing credit that I have used to great advantage. Go to a bank and ask to borrow $10,000. When they ask you the reason for the loan tell them you want to be able to make an investment when an opportunity presents itself. When the bank asks for your financial statement (which you should have prepared before your meeting and have with you) give it to them. To the extent you have some asset that can be reduced to cash such as stocks, bonds, or surrender value of insurance policies, offer it as security for the loan even though the value far exceeds the amount of the loan you asked for. Remember, you’re borrowing simply for the purpose of establishing credit. One essential ingredient is that you always have the right to prepay the loan at any time without penalty. Essentially, what you want to do is, borrow $10,000, pay it back, then borrow $25,000, pay it back, then borrow $50,000, pay it back, and so on. You want to establish a perfect payment record. If you put the borrowed money in another account that earns interest, all you really lose is the difference in the interest rate you pay the bank and the rate you earn on the investment of the loan proceeds. Along the way, ask the bank to return or reduce your security based on your excellent credit record. If they balk, tell them you’re contemplating taking your account to another bank that’s more flexible. If your loan officer says no, talk to his superior who will probably be more receptive.
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successful business that was ultimately sold for a profit of millions of dollars. Don't think you can do everything yourself. Surround yourself with professionals and you'll save yourself aggravation and even money.

INVESTING CASE STUDY

Villa Trump Brazil

Trump has earned such a reputation for hiring top people, and creating quality and luxury in whatever he does, that he can now license his brand and property design and management expertise to other real estate investors. They realize the value of having a top name (in this case, Trump) associated with their development. They appreciate the marketing power it gives them. (I'll describe later in the chapter how small investors can use the same principle when hiring architects, builders, and designers.) One example of this is a project near Sao Paulo, called Villa Trump Brazil. For Trump to permit his name to be connected with this project, the land owners paid him $1 million cash up front, plus a share of the profits on anything over $45 million in sales. They intend to sell 400 building lots at $300,000 each. That's $120 million in sales right there. Except for supervision and guidance, Trump's input is minimal with no dollars in but he'll get lots of dollars out. His major contribution is his name coupled with his expertise in development supervision. It will inevitably turn out to be a beautiful, luxurious first-class development. It's a huge project on 1659 acres, including a Jack Nicklaus signature golf course and golf academy, with a nine-hole executive course for the academy. It will feature a high-quality boutique hotel, situated around the 18-hole golf course along with 18 mansions, worth between $4 and $10 million.

Trump wouldn't ordinarily go out and build a project in Sao Paulo, Brazil. However, local real estate developers knew that there were many wealthy Brazilians who would pay more for the quality and luxury Trump represents. The group of savvy visionaries said, "We'll do the work. We'll put up the money, build it, and we'll give you a share of the profits. We need to use the Trump name and we want to utilize your expertise in selling the units and running the facility, and furnishing the services available from your staff of experts." The key to Trump's approval was their consent that the project will be subject to the complete control by Trump's organization. We control what it looks like. We control what they do and how they do it. The price of using the Trump name is that every project has to meet the rigid Trump standard of excellence.

HIRE PEOPLE BASED ON THEIR REPUTATION AND TRACK RECORD

When it comes to specialty areas of real estate like law or design or contracting, you want to avoid someone who just occasionally dabbles in the real estate field, like your neighbor's brother. You want a professional who makes a living in the real estate specialty you need. How do you find good real estate professionals? Start by keeping an eye out for examples of work you admire, such as a local landscape or building renovation, then find out who the designer or contractor was. Also, contact lawyers and contractors that you know have done work on projects like yours, and who will likely do good, quality work for you. It is especially important, for example, if you have a zoning problem, that you hire a local zoning lawyer who is well versed in zoning matters and has the political connections to get things done.

You always want to use full-time specialists in their field of endeavor, not part-timers. They won't be up-to-date on the latest techniques. Their fees will probably be less than the best in the field, but they won't have the knowledge you need. Every real estate parcel has problems of one kind or another that will require the expertise of a
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looks for ways to turn his properties into huge cash cows that are so profitable he would never contemplate selling them. Mar-a-Lago is an outstanding example of this.

INVESTING CASE STUDY

MAR-A-LAGO

Mar-a-Lago is an exquisite mansion and estate in Palm Beach, Florida, that was built in the 1920s by Marjorie Merriwether Post, the Post cereal empire heiress who later married E. F. Hutton, the financier. The mansion consists of 118 rooms with 67 bathrooms, and 62,500 square feet of floor space on 19 acres. No expense was spared to build it. For example, over 17,000 ceramic tiles used in the property were made in the sixteenth century. Marjorie Merriwether Post imported the tiles from Italy. At one time, over 300 artisans were brought in from Europe to work full time on Mar-a-Lago. During the estate’s heyday as a winter home for lavish entertaining, she employed 60 people—30 working inside as butlers, maids, laundresses, cooks, and other jobs, and 30 working the outside as gardeners, handymen, chauffeurs, and security guards. Yet, only she and Dina Merrill, her daughter, lived on the property.

When Marjorie passed away, Mar-a-Lago was conveyed to a trust established by the Post family. Because of the magnificence of the building and its furnishings, the trust donated it to the federal government to be used as a museum. It was never successful as a museum because there were not enough fee-paying visitors to warrant the expenses involved in maintenance and operation. It wasn’t long before the government gave it back to the trust. The trust had no viable alternative but to put the estate up for sale. However, the trustees wanted the buyer to preserve this valuable historic treasure. Donald Trump decided to bid on it and although he was not the highest bid-der, he agreed that he would keep the premises intact and restore it to its original glory. He got the property because the trustees liked the idea that he would maintain and restore the estate and would not subdivide its 19 acres into individual parcels. As part of the sale, Trump also bought all the furnishings, which in itself, was a fabulous deal. In fact, when he decided to turn the estate into a country club, he sold some of the antique furnishings that were of museum quality.
TRUMP STRATEGIES FOR REAL ESTATE

for more than he paid for the entire property. Today, Mar-a-Lago, which was falling apart when Trump bought it, has been totally refurbished and is a very exclusive and beautifully restored estate and country club with a membership roster that reads like "Who's Who."

After Trump first bought the property, the expenses of operating and owning were overwhelming considering how little use Trump made of the estate. After thinking about the problem, Trump thought, "Why don't I create an elite country club and get 200 to 300 wealthy people to share the costs?" Before his idea became reality he had to fight a major battle to obtain the right to operate the facility in its present fashion. When he first bought it, city officials and the powers that be didn't like the idea of Trump, a newcomer who was not part of the old money families of Palm Beach, coming in and creating a country club on the Mar-a-Lago property. Little did they know what a tenacious adversary Trump would become.

To get approval, Trump threatened to subdivide the property which was his legal right. He never intended to do this but he used it as leverage to get what he wanted, because he knew the last thing the city wanted was a flock of new houses on this landmarked property. (This is a good example of exploiting the other side's weakness in a negotiation.) The political fight got so nasty that the West Palm Beach airport appeared to alter their takeoff and landing patterns to fly over Mar-a-Lago to weaken Trump's resolve. Trump sued the County Airport facility claiming the noise and vibrations from low flying aircraft would damage a historic federal landmark (which Mar-a-Lago was). Finally, recognizing their potential liability and the expense and embarrassment the local government would sustain, they gave Trump the approval he sought and Trump's lawsuits were terminated. Trump was now ready to implement his plan to turn Mar-a-Lago into a luxurious country club. This involved restoring the property to its former magnificence while adding improvements to make it attractive to members willing to pay $200,000 or more to join.

HOW TO MANAGE PROPERTY LIKE TRUMP

Trump's Mar-a-Lago Club in Palm Beach is another classic Trump example of creating "sizzle," which I discussed in Chapter 5. Trump envisioned Mar-a-Lago as a country club without the benefit of a golf course but with a host of other luxurious facilities superior to those at any other Palm Beach hotel or country club. Trump decided to make Mar-a-Lago "the place" for entertaining dinner guests, so he modernized the entire kitchen and expanded the dining areas. He created luxury suites and cottages where guests could stay for $1,000 per night. He spent millions by adding a huge cabana and pool area on the Atlantic Ocean for use by members and their guests who desired sun and surf. On the grounds, he installed a new magnificent Olympic-size swimming pool, a new tennis facility with five championship courts, and a state of the art spa and fitness center. For those who are interested in croquet, there is a championship layout on the manicured front lawn where a croquet professional is available to give lessons. Not satisfied with his installation of a huge tent that could accommodate as many as 1,000 guests, Trump recently built a new equally spacious "Trump Touch" ballroom replacing the tented facility. It's considered "the place" for weddings, parties, or charity functions. It's an absolutely spectacular facility, the ultimate in class and luxury.

It's interesting to note that many of Palm Beach's elite—people on the town boards and others who lived in the community who had vigorously opposed Trump, immediately applied to become charter members of Mar-a-Lago. They knew that a membership at Mar-a-Lago would be a symbol of prestige they had to have. They were right!

How Trump Manages Property at Mar-a-Lago

The landscaping is incredibly picturesque and painstakingly maintained. All of the public areas give the members a feeling of comfort and luxury. Although the spa and accompanying beauty salon are