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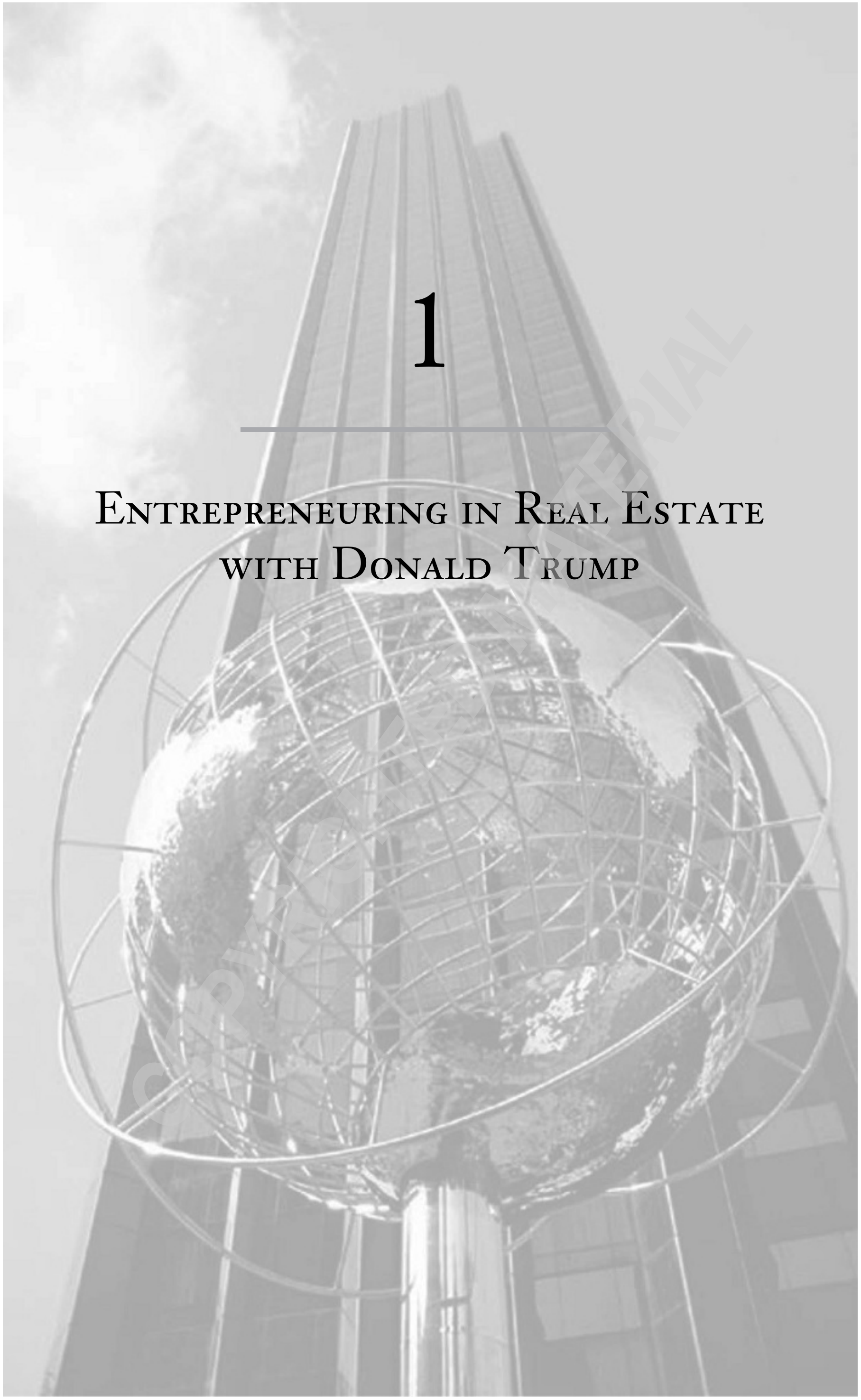

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Entrepreneuring in Real Estate with Donald Trump

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To build wealth with property investments, "Buy at the right price, at the right time, and in the right place." That's why today, you enjoy perfect positioning. Because of the recent property slump from London to Hong Kong, from Shanghai to Dubai, from LA to Santa Fe, from Miami to Moscow, from Barcelona to Boston—you can find extraordinary bargains nearly everywhere throughout the world. As newspaper articles and the television talking heads fret about the downturn in property, those of us who have seen and heard it all before are out shopping for the deals of the decade.

Perfect Storm Creates Perfect Opportunity

Mr. Trump and I have each experienced and keenly studied property markets and mortgage markets for more than 30 years—all the way back to the 1970s. And we both agree: This perfect storm of tight money and excess property supply (especially foreclosures) has created perfect opportunity for you. Historical experience has proven many times: Investors who move forward to acquire properties in times of distress and perceived uncertainty become the property multimillionaires of tomorrow.

During the past several years, I have logged 200,000 miles of national and international travel—looking at properties, attending property shows, speaking at investor conferences, and evaluating conditions of emerging property demand and supply. From such travels, I have discovered a cornucopia of profitable possibilities. Several centuries ago, Baron de Rothschild famously advised, "Buy when the blood is running in the streets." The Baron paints a more vivid picture of market conditions than "right price, right time, right place." But his message counsels the same experience-derived wisdom—that same wisdom recently espoused by Warren Buffett: "Buy when others remain fearful, sell when others become greedy."

Entrepreneurs Act on Facts

We all know that emotion dominates markets. During boom times, irrational exuberance infects peoples' thoughts. They speculate wildly—yet persuade themselves that they are placing their money into a sure thing. When the party ends, they feel sick with a financial hangover and vow never to get into real estate (or stocks, or gold, or commodities) again.

Entrepreneurs behave differently. When markets boom, they pull back as the price growth of an asset class greatly exceeds the growth of its supporting income. For example, at the peak of the boom, Las Vegas houses costing $350,000 would bring in no more than $1,200 a month in rents. By that time, the smart money had exited. Speculators were merely selling to each other. The greater fool theory once again triumphed. ("I may be a fool to pay this much, but I will find a greater fool who will pay me even more.")

As price corrections occur in response to speculative excess (and ignorance), entrepreneurs know that recovery always follows a downturn. Rather than freeze in fear, entrepreneurs act on facts. They wait for speculators to vanish from the buy side—as they certainly have—and then real investors step in to relieve those financially strapped owners who now must sell at whatever price they can.

Of course, not all distressed sellers today were yesterday's speculators. And not all of today's sellers are distressed. But the extra supply created by the distressed sellers, when matched against the vanquished demand, opens the door to a bank vault of profits for entrepreneurs who focus on facts rather than fear.

What facts? Here are just a few:

- *Population:* During the next 20 years, the population of the United States will grow by 40 million persons. The population of the world will grow by more than one billion. These additional people will not only fuel demand but will likely push up the costs of resources (lumber, energy, steel, skilled labor) needed for new construction.

- *Yield:* When we measure income relative to asset price, property outperforms all other asset classes. With property you can earn an unleveraged (cash purchase-no financing) annual yield of 6 to 9 percent (i.e., not counting future appreciation). Bonds pay 4 to 6 percent, CDs pay 2 to 5 percent, and stocks pay current yields of 1 to 3 percent. With 60 to 70 million baby boomers seeking income during their retirement years, they will bid up the price of property as they attempt to invest to earn retirement income.
- *Inflation:* We do not merely need income during retirement, we need *inflation-protected* income. On that score, bonds fail. For long-term bonds, your coupon payments remain unchanged for the entire period to the maturity date of the bond—which typically ranges from 10 to 30 years. Even worse, yields on safe, investment-quality bonds fall below 6 percent—and yields on (perceived) safe U.S. Treasuries now fall below 4 percent.

  Although stock dividends, over time, tend to outpace inflation, stock prices themselves can lag the Consumer Price Index (CPI) for decades (e.g., 1929–1958, 1966–1988, 2000–?). Property? Since the 1930s, the prices of properties and rent levels have outpaced the CPI in every decade. (Though some individual markets have lagged, that's why Chapter 6, "Where's the Area Headed," tells you how to forecast economic growth, population increases, and potential appreciation.)
- *Volatility:* How would you like to approach your retirement age and painfully watch your nest egg shrink by 40 to 60 percent? Retirees who hold their wealth in stocks frequently experience such shocks (1973–1974, 1987, 2000–2003, 2008). Even in the worst national economic downturn in property since the 1930s, the median house price has fallen just 15 percent—though some areas (those dominated by speculative borrowers and buyers) have suffered more extensive drops. Prices in well-selected areas (as per the lessons of

Chapter 6) have fallen little—and in some cases are still appreciating. When you avoid speculative markets and follow the tried and true principles of location, you will not suffer the volatility shocks that Wall Street brings investors.

- *Leverage:* The credit crunch and piles of foreclosures have once again proven the age-old wisdom if you borrow unwisely, if you borrow speculatively, you can lose big in stocks, bonds, or property. But when you borrow sensibly, over time leverage will multiply your original cash investment many times over.

  What is "*sensible leverage*"? Financing that provides you positive cash flow after you make your mortgage payments—and mortgage payments that cannot spike upward within a period of just a few years.
- *Create Value:* Unlike any other asset class (stocks, bonds, gold, annuities, commodities, foreign exchange collectibles), property permits you to earn large entrepreneurial rewards in two major ways: (1) The first principle of making money in real estate tells you to buy at the right time, at the right price, and in the right place. With know-how, you can buy properties for less than they are worth. In the chapters that follow, you will learn how to master this entrepreneurial skill.

  Property principle number (2) tells you to create value. Here's where opportunity with property really builds your wealth. When you buy stocks, you merely hold for a hoped-for gain. With property, you not only can earn immediate gains through savvy buying at a bargain price—you earn even more when you improve a property's market strategy and management practices.

Buy Right—But Go Further, Create Value

In this book, you discover how to *buy* right, but even more importantly, you learn the *practice of entrepreneurship* as lived and practiced

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by the ultimate entrepreneur, Mr. Donald Trump. More than ever, Mr. Trump's experience is needed because throughout the United States and around the world we can see the carnage created by the mindless speculators who merely try to surf a wave of momentum to easy riches. We are returning to an arena where to win the game of property you must go beyond luck and a fortuitous (short-term) boom. You will profit most with the least risk when you create value, not just rely on windfall gains.

As Mr. Trump told me when we planned this book, "For all too long, the infomercial guys of late night television who promote 'nothing down,' 'pennies on the dollar foreclosures,' 'quick flipping,' and other supposed techniques to get rich quick have dominated the field of real estate seminars, boot camps, books, and CDs." Then he added, "Life rarely works out that way. If you go for get rich quick, you are really going for broke." Quite prophetic.

We don't want you to go broke—or go for broke. We will not promise that the entrepreneurial principles of Donald Trump and Gary Eldred will turn you into an overnight millionaire. (Although it does happen occasionally.)

We do promise that our advice and counsel shows you how to buy right *and* create value that will help you build wealth, achieve your potential, and provide excellent service for your customers (tenants and buyers). Even better, like us, you just might have a lot of fun along the way.

"Think Big, Live Large"

Entrepreneuring means more than just property investing and building wealth. You can apply it to live a richer, fuller life in every respect. "Think big, live large." With that now famous axiom, Mr. Trump encourages you to "see each day as an important day for your future and a special day just because you have it. Energize your existence. 'What a great day!' Say it right now and feel the positive thinking it generates. Give yourself a chance to do your best, and everyone will benefit. Know that you can fill today with possibilities and opportunities."

Open Your Mind to Possibilities

To achieve your potential, educate yourself to think and expand your possibilities. It turns out that both Mr. Trump and I began reading books on real estate while we were undergraduates in college. Both of us began investing in property when nearly all of our fellow students were hoping to buy a sharp car or find a cool apartment to rent.

Why did we act differently? Why did we begin to build wealth at an age when most of our peers settled for lame excuses? Because we refused to accept the conventional wisdom that we were too young, too inexperienced, or too anything else.

We achieve more because we open our minds to new ideas. We search out information and knowledge. Both of us read to learn the facts of real estate markets and the wider national and world economies—and we read in the field of (for lack of a better term) *self-improvement.*

We encourage you to think positively, create possibilities, and see beyond your current horizons. When we see headlines like, "Builders' Inventories of New Unsold Homes Reach New Highs," or "Tight Credit Stalls Property Sales," or "Foreclosures Jump 42 Percent," we do not run in fear to stuff our cash into government-insured bank CDs. We know that such headlines spell B-A-R-G-A-I-N-S G-A-L-O-R-E.

Know the Details

When you open your mind to possibilities, you open your mind to profits. But positive (I like to say exploratory) thinking will work only when you prime your mind with an ever-growing flow of knowledge. As Mr. Trump likes to say, "I'm not young enough to know everything."

Indeed, he keeps Kipling's six honest men ever present to build his knowledge. Their names are What, Why, When, How, Where, and Who.

"To get a building built in New York City," says Mr. Trump, "requires knowledge of zoning, contractors, architects, air rights, tax laws, union rules, and a thousand other things—which most importantly includes intimate knowledge of the intended customers. When I started, I had to learn it all. No one else could learn for me. But every day, I would learn something, apply it, and make progress. Believe me, becoming a world-renowned developer didn't happen overnight.

"I always warn people not just to jump in. First prepare. It's that fine line between bravery and stupidity. Before you dive in, know the flow of the tides and the depth of the water. Danger lurks everywhere. By danger I mean the unknown. Even in shallow waters, you can drown. Sometimes you don't see the risks until you swim past the point of easy return. Keep risks in mind no matter how sensational or foolproof you think your deal might look.

"In those early years, I worked endlessly to research every detail that might affect the deal I wanted to pursue. I do the same today. People often comment on how quickly I operate, but I can move quickly when opportunities open because I've done the background work first—which no one else sees. I prepare thoroughly. Then, when the green flag is dropped, I can stay ahead of competitors."

Think for Yourself—Accept Responsibility

Of course, you will incorporate the facts and opinions of others into your investment decisions. But never abdicate your decisions to your advisers. Do not be swayed by others without verifying or applying the lessons of the past. Watch closely for errors of facts and judgment. The bank failures, foreclosures, and personal bankruptcies that have recently made the news occurred (for the most part) because too many people merely followed the crowd and ignored their individual responsibility to think, research, and exercise well-reasoned, reality-grounded judgments.

"Adopt a mind-set of personal responsibility. When I say, 'adopt the right mind-set', I emphasize responsibility. People who accept responsibility do not blame or find fault with others. The shirkers, the excuse mongers, and the naysayers rarely contribute much and rarely amount to much either. The dues paid to belong to that club cost far too much.

"I knew a guy that I used to call up just to see who and what he *blamed* that day. I don't think that guy ever thought he had made a single mistake in his life. Nothing was ever his fault. He was his own worst blind spot. He eventually became a perpetual loser because he never learned the reason for his biggest failure: himself. Learn from his example. When things go wrong, look first to yourself.

"I've been in business long enough now and have had my share of ups and downs, so I can go from seeing the problem to seeing the solution. Instead of dwelling on a problem so much, visualize solutions. Especially in today's market, losers see problems and hide from risk. The property millionaires of tomorrow realize that problems generate profits for those smart enough to act.

"Such a mind-set works: Highlight and enumerate the positive things you can do. Use the negatives to steer a productive route around, over, or through obstacles. It's your responsibility, but also your rewards."

Goals and Habits

"Give your goals substance," advises Mr. Trump. "Give them value that supersedes money. Make your goals count on as many levels as you can. Write a subtext that will provide benefits not only for you but for other people as well. That's an important aspect of thinking big—and a big step toward greater success.

"Too many people in recent years wanted to make money, get rich, spend lavishly—yet they did not understand nor acknowledge

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the reciprocity of wealth-building. In fact, I dislike the term '*make money*.' It's too crude. I prefer the word '*earn*.' The word 'earn' reminds you that before you reap, first sow something of value for others.

"Only then will people respect you for your habits, your character, and your performance. As Aristotle points out, such habits reflect your qualities. Ensure that your character sets a high standard. Review your habits, behavior, and performance. Discipline them to lead you in the right direction. Advance toward the life you want to live and know that to achieve it will distinctly define your own boundaries of behavior, your own goals—without being influenced negatively by anyone else."

The Art of the Deal

Place yourself into your deals. Commit! Mr. Trump likes to quote Thoreau's passage: "I know of no more encouraging fact than the unquestioned ability of a man to elevate his life by conscious desire [commitment]." Desire encourages; it empowers. You succeed when you apply your brainpower, then move forward. Without action, thought is stillborn. Action without thought endangers your wealth. The art of the deal, the path to success, remains simple: Discover, learn, think, act, achieve, revise, achieve more.