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From Ground Zero: *The First Deal*

The basics for success in any business are threefold: Learn the industry, get into the mix of it, and go forward full of confidence. But that only takes you as far as the first deal. What you need after that is something very important, and it's not money. You won't have any money, anyway. Not if you started like I did, with nothing.

My first big deal made me a multimillionaire. Before that, my net worth was similar to that of most people: what I could generate in wages by providing services. But I never took my eyes off the prize, and it only took me a little more than half of my twenties to achieve my goal of becoming a multimillionaire before the age of 30.

I started in my chosen profession of real estate by becoming a residential appraiser and then a residential sales agent. I was nineteen when I started. The fact that it was real estate is not important. What is important is that, regardless of the business you're in, you have to learn it. And the best way to learn it is to get into the mix. I learned the business from ground zero, in the trenches.

There are lots of ways to get into the real estate business. One way to learn is like Barron Channer, a young man who now works for me, who got his MBA from Wharton. He started as an intern with us, a bright young college kid,

and got his foot in the door that way. That's one way to learn the business, through formal education.

I didn't have the educational background, and I also wanted to start at an early age and to get into the business on the ground floor. I didn't get to work in a nice environment like the one we're providing for Barron. Instead I went to work doing home appraisals for my mother, who was a real estate professional, and then for another appraisal firm. For the most part we did housing appraisals for HUD-insured loans and VA-insured loans. The VA—the U.S. Department of Veterans Affairs—was more middle class; HUD—the U.S. Department of Housing and Urban Development—was lower income. We would go into these areas that were rough, really rough.

That was in Washington, D.C., and it's where I learned the business. Today I have projects in lots of other places around the country, including Miami, San Francisco, Detroit, and Las Vegas, but it was in Washington—where I still own buildings—that I honed my skills. It was in Washington, too, where I learned the art of politics.

I was actually born in Washington, D.C., in 1960, the year that President John F. Kennedy took office. My mom moved us to Detroit for five years when I was eight, but when I was thirteen we went back to Washington. I lived there from that point on, except when I went to Rutgers University in New Jersey for a little less than a year in 1978.

In Washington I got my first taste of politics and learned how the political process works, up close and in person. Thanks to my mother's early understanding of the importance of developing political access and her skills of persuasion, I became a Congressional Page when I was sixteen. I spent my eleventh and twelfth grades on Capitol Hill, attending the U.S.

Capitol Page School on the top floor of the imposing Library of Congress building across the street from the U.S. Capitol. It was quite an experience.

My mom got me my job as a page through Congressman John Conyers Jr., a Democratic member of Congress whose Fourteenth Michigan District included about half of downtown Detroit, where we had lived. I had met him when I was a little kid. In fact, Conyers did not have sufficient seniority at the time to appoint me, so he called in a favor from a more senior member of Congress, Representative Gus Hawkins. Hawkins was the first African American to represent the State of California in Congress. He was a major civil rights leader and the co-author of the Humphrey-Hawkins Full Employment Act. I worked as his page for six months.

After that I wasn't about to leave Capitol Hill. The sense of power and excitement was just too much for me to return to ordinary teenage life. Fortunately, while I worked as a page, I developed a friendship with another California member of Congress, Representative Ron Delums. He was a very cool congressman, a tall, well-dressed, and charismatic social activist. Ron is now the mayor of Oakland, California, and I am proud to say that I helped him raise funds used to run his successful campaign in 2006. I extended my stay on the Hill by another three months as his intern. I closed out my senior year as a paid staff aide in Conyers's office.

The time I spent in the halls of Congress was an education in the power of relationships and how they make politics work. I got to come across people like Tip O'Neill, then Speaker of the House, and Jim Wright, the House Majority Leader, and the flamboyant Charlie Rangel of New York. I also saw Marion Barry in those halls a few times, especially

when I worked for Ron Dellums, who was Barry's good friend. Though I didn't know it then, this acquaintance would help me later on.

First, however, I had to learn my trade. After my abortive first year as a premed student at Rutgers, where I promptly ran out of both interest and money, I came home to learn the property appraisal business from my mother. In those days you didn't need a license; it was much less regulated than today. All you needed was experience, working as an apprentice to another appraiser—though you could take classes at American University or the University of Maryland, or with the American Institute of Real Estate Appraisers or the National Association of Independent Fee Appraisers, which sponsored courses at local universities. I took the courses, but I mostly learned through my mother and a guy named Charlie Merkle.

The appraisal business is a great one if you want steady income. Anyone who refinances or applies for a new mortgage has to have an appraisal done. My mother and Charlie appraised housing for Fannie Mae, the massive government sponsored mortgage corporation, and HUD and similar organizations as well as for local and national banks. If you were on an approved list of appraisers, you would get assignments on a rotating basis, for a set fee. At the time I think it was \$90 for HUD appraisals and \$150 for Fannie Mae assignments. I acted as a sort of subcontractor; I did the work, and they would review and sign off on the appraisals. I did jobs for my mother for \$30 each and then later for Charlie at \$60 each, so you can see why I was eager to work for Charlie. I found him through an ad in the paper, and it turned out I had seen him when I was going to the HUD offices, dropping off appraisals for my mother.

After a couple of years of doing this, I was ready to start my own appraisal company. I had served my time as an apprentice, learning the business and taking courses along the way. I had also become a real estate sales agent. But now I wanted to make more money and achieve the financial freedom that comes with it. The problem was that in order to launch as an independent appraiser, you needed to be approved by HUD. To get that approval, you needed connections and clout. Since this was Washington, those kinds of connections had to be political. I was going to have to get involved in politics and to make myself known in the community. And this is just what I began to do.

The year was now 1982. Mayor Barry was running for reelection, and I saw this as my opportunity. I would get involved by helping him get reelected.

Barry was in for a tough race, or so it seemed. He had been mayor for four years and was running for a second term against Patricia Harris, ironically enough a former secretary of HUD under President Jimmy Carter.

There was a big contrast between the two of them. Harris was perceived as a polished, articulate, and well-educated person, whereas Barry was seen as a rough guy from the streets. A lot of business leaders thought Harris would win the race, and people were climbing over each other to support her. But I thought Barry would win, because I felt the residents of Washington were more concerned with who was going to make their streets safe, get their trash picked up, and make sure they had decent schools and the like. Barry came across as better suited to deal with the drudgery of municipal politics, plus his efforts to rebuild downtown and the inner city were winning him lots of points among the voters. It's hard to see it now,

but back then he had the image of a mayor who could make the city work.

I started getting involved in Barry's campaign by organizing events for him. My big day came when I held a "Meet the Mayor" event in the party room of my apartment building. The gathering was for residents of the area around Connecticut Avenue and Van Ness Street in Ward 3, a predominantly white district that was among the most affluent in the city. We served refreshments, drinks and so forth, and a few hundred people showed up for the opportunity to meet and talk with the mayor—including the heads of some local community and condo organizations, which thrilled me. Barry and his wife came, and I gave a speech introducing him. It cost all of about \$1,000, and I got a couple of other people to cosponsor it with me.

As I mentioned, I had met Barry before as a teenage page, but this was when I began to develop a real relationship with him. The meet-and-greet event was a success, and I wanted to follow up on it. I knew from my Capitol Hill days that repetition and familiarity were extremely important in building political relationships but that fundraising was the best way to be taken seriously. Of course, fundraising was a tough task for me at the time, because I didn't know a lot of people who had money. Then I came up with a great idea.

Washington isn't like most other places in the United States, where you are prohibited from spending more on your campaign than you collect. In Washington you are allowed to deficit spend on your campaign, and Barry was doing just that. He would have bills to pay. I also knew that many of the city's major businesspeople were supporting Patricia Harris. But since I believed that Barry would win, I

felt these same people would later flock to redeem themselves with the mayor.

Convinced of this, I scheduled a fundraising event for Barry a couple of days after the Democratic primary. This was the contest with Harris, and since the city was about 90 percent Democratic, winning it was the equivalent of winning the race. So I targeted everyone who had given \$250 or more to the Harris campaign and invited them to a post-primary, \$500-a-head breakfast at the Capitol Hilton just north of the White House. We did our mailing and then Barry won overwhelmingly; in fact, he beat Harris nearly four to one!

A couple of days later the fundraiser took place, and just as I thought, all the people who had supported Harris showed up in droves. It was standing room only; we had to bring in extra chairs and tables. I think we raised about \$100,000 for Barry that morning.

This put me on the mayor's radar in a big way. When he spoke to the packed room, he thanked me for organizing the event, and right then I began to develop a relationship with his campaign staff—the very people who would run the D.C. government after the election. These were the people who could help me get on the HUD approved list so I could start my own firm, and I let them know about my ambitions in real estate.

Sure enough, a few weeks after the election, I got a call from a member of Barry's staff. She said there was an opening on the city's Real Estate Commission; would I be interested? Of course I would be, I told her, and she said that I'd get a call from a person named Betty King, who ran the board's office. She called and I sent her my résumé.

A few days later Betty King called back to say there was a problem: I was not qualified to serve on the Real Estate

Commission, since the post required a broker's license, and I only had a sales license. Instead, she thought I'd be more qualified to serve on the property tax appeal board, that in fact it would be perfect for me. There was only one small hitch: When she checked, they had just filled the only vacancies available, and the names had already been sent up to the mayor's office for his approval and signature. I asked when there would be another opening; she said in about two years.

I hung up and thought, I don't have two years to wait. So I called the deputy mayor for economic development, a guy named Ivanhoe Donaldson. I had gotten to know him as the mayor's former campaign chief, and now he was one of Barry's top advisors, a very powerful man in local government and politics—in fact, second to only the mayor. I had also met Ivanhoe when I was a teenager, at a political event hosted by my mother. I told him about the tax appeal board, that it was something I'd like to do and was qualified for, and that I'd like his help in getting appointed. He said he'd look into it and follow up, and that's just what he did. I got a call a couple of days later, again from Betty King, saying that she had some very good news: She was so impressed with me that she'd convinced the mayor to put me on the tax appeal board. My name was going to be sent to the city council for confirmation in the next day or two.

That's how I got on the property tax appeal board. It was a very prestigious position for me. It literally meant that I was qualified to review all the assessed properties in Washington, D.C., and it began to put me into the mix, interacting with major real estate players in the city.

More important, it helped me start my firm. I could now update my résumé to show HUD that I was on the property

tax appeal board. Since I was qualified to review all of the properties in the city of Washington, D.C., for tax purposes, why wouldn't I be qualified to appraise some of the low-income housing there, too? I still had to call one of my friends from page school who was now a special assistant to Representative Dellums, whom I'd worked for as an intern. With my new appointment in hand, I got him to write a letter in the congressman's name and then follow it up with calls to the area director for HUD. The director agreed to meet with me, and after a few interviews and conversations, she finally put me on the list.

Now that I was on the HUD list as an approved appraiser, I was guaranteed a minimum level of work. Any lender making a HUD-insured loan has to use an appraiser from that list, and as I mentioned, HUD makes the assignments on a rotating basis. It also gave me an official status that allowed private banks and financial institutions to use me as an appraiser. I felt like a made man. I was on my way.

This all occurred in 1983. Barry had won the election and was sworn into office in January. During the spring of that year that I was appointed to the board, and shortly afterward I got on the HUD appraiser list. I was twenty-two, turning twenty-three. I quit working for Charlie Merkle and I started working for myself, initially out of my home. It was a thrill; I was beginning to generate a dependable source of income.

I did more than just produce a steady income, however. I was aggressive and ambitious, I worked hard at my new business, and I put every penny back into it. Initially, HUD tried me out with a few assignments and then increased my volume. I got more and more jobs because I was quick and

reliable. As my business grew, I hired a couple of people, including my cousin, who was in college. I got so good at appraisals that within a couple of years I was being paid to review the compliance of HUD-approved lenders and underwriters. HUD even contracted me to review the work of other appraisers who were my peers.

As good as the appraisal business was going, however, it was my work on the tax appeal board that fascinated me.

The way it worked was as follows: Each year the city of Washington, D.C., through its Office of Assessors, reappraises all of its property at 100 percent of fair market value. This annual event includes all 165,000 commercial properties in the city. It is a massive process.

For the most part, the city underestimates the value of properties. But in some cases, it overestimates—or so the owners feel—and these assessments can be appealed. Remember, we are talking about properties worth tens of millions of dollars, even hundreds of millions of dollars, being assessed by underpaid city employees. And whereas residents pay as little as 1 percent of fair market value in annual property taxes, commercial properties pay as much as 5 percent. So you can imagine the magnitude of money involved.

In terms of timing, the city assessments are finished by March 1, with an appeals deadline of April 15. The board on which I served must then hear all of the appeals and make its decisions by June 1; at that time the tax base has to go into the city's revenue projections. So from April to June is an extremely busy three months, after which the board doesn't meet until the following year. And to give you an idea of how powerful the board was, we were giving back about \$50 million annually in property tax refunds, of which about 90 percent went to commercial property owners.

Despite the enormous power and importance of the tax appeal board, however, it was not run with any degree of efficiency. To quote the old German politician Bismarck, if you like either sausages or laws, you don't want to know how they are made. I could say the same about the tax appeal board when I arrived. The chaos shocked me. It was operated, at best, like a bad phone company. Petitioners were told to come down to be heard between 9 A.M. and noon or between 1 and 5 P.M., and often even those hours were not kept. The place was filled with people who had to wait for hours to be heard. You had to take off at least half a day of work, if not the whole day. It was like a zoo, with all sorts of characters milling around.

At the close of my first season on the board, an opportunity arose to change this: The chairman's term was up. The previous mayor had appointed him, and now he would have to be reappointed by Barry. I was young and new at the game, but you didn't have to be a seasoned veteran to understand that things needed improvement.

My first reaction was to go to a board member who had come on at the same time as I did, an older guy who had worked appraising properties for the post office and had then retired to go into business for himself.

"Look," I said to him. "We need to make a change in the chairmanship, and we should get the mayor to do it. If you're interested, I think you're the man for the job."

"No, no, no," he said. "I'm not interested. Why don't you go for it?"

I hadn't considered it, but he said he would support me if I wanted the position. I said yes, as long as he would back me. He agreed, so I took my shot.

I went back to Ivanhoe Donaldson, the deputy mayor

for economic development, and scheduled a meeting. I told him I wanted to be chairman of the board. I said I was qualified and that I'd be a good choice because, as a supporter of the mayor, I'd have his best interests at heart and wouldn't make him look bad. The current chairman, I pointed out, ran the board in a terribly disorganized fashion; it was time to change things.

Donaldson said he was inclined to support me but that I would have to make the decision easier for the mayor. It was a classic lesson in politics: I'd have to get some of the business leaders whom the mayor respected to call him on my behalf, and then he, Donaldson, could go to the mayor and push for the appointment. I'd met some of these people during the fundraiser I gave, and some of them had come before the board. I called on them and asked for meetings; I even met with some of their law firms. I convinced them I was a good person for the job; they called the mayor for me and wrote letters. Then Ivanhoe scheduled a meeting for me with the mayor, in his office at City Hall.

I'll never forget that day. I went into Barry's office, the first time I'd ever been there, and it blew me away. It was huge, far bigger than any congressman's office, overlooking the Washington Monument and the White House, with a ceiling that was probably 20 feet high. I was awestruck but still determined to make my case. I think the mayor got a little bit of a kick out of this young guy who was in there trying to convince him to do this. I remember him asking me how old I was, and I said I was twenty-four.

"People are going to think I'm crazy," he said.

"But I won't let you down," I told him. "You will never be embarrassed by what goes on there. I will do a great job for you, and you will get a lot more out of me than you

would with anyone else. Even if it's not me, you should pick someone else. Just don't reappoint this guy, because it's not in your best interests."

It was the truth, and Barry knew it.

I told him again I would work hard for him and do a good job, that I had some good support in the community, and that I wouldn't let him down. Then I shook his hand and left.

After the meeting, I learned that Barry had been elected president of the National Conference of Black Mayors and that they were going to be holding their midwinter conference in Washington. I talked to one of his aides and said, "You know, Barry should hold a reception welcoming all these mayors to Washington." Fine idea, the aide said, but who was going to pay for it?

That's when a light went on in my head. I said I'd raise the private dollars to do it. I couldn't afford to pay for it all myself, but I committed to the event on the spot. I went back to my office and started to call everybody I could think of to raise money. And I got it done. The mayor held his event and I sponsored it, along with some other people, welcoming the National Conference of Black Mayors to the D.C. Convention Center. That got me in front of Barry yet again, and at that point he began to seriously consider me. About a month later, I got a call again from Betty King, congratulating me on the mayor's decision to make me chairman of the property tax appeal board.

That was in December. The previous chairman, Samuel C. Reynolds, exited the board gracefully, and later I hosted a going-away party for him. I had learned that it's best never to burn bridges and be generous in victory. Many members of the board, especially the more senior

ones, liked Reynolds, and I wanted to show them the proper respect as well. This was important, as I would need their support in my efforts to make significant changes at the board.

After the farewell party, I began to focus on how I would improve things. First I made a few personnel changes. Several seats had expired, and Barry allowed me the flexibility of naming some of the new board members. One of the persons I put there was the brother of my friend who worked for Congressman Dellums and who had helped me get my HUD approval. His brother was a real estate zoning lawyer who had worked for the city attorney's office, so he was well qualified. This is one of the important rules of politics: Don't forget those who help you, especially by returning the favor.

I then created four vice-chairman positions on the board and made each a committee head. This created a better organization, with more individuals carrying responsibility. I appointed two of the senior board members as vice chairmen and two of the guys who had joined the board when I did.

Next I reorganized the way the board was run. Once we started our three-month session, it was a marathon, from 9 A.M. in the morning until 6 or 7 at night. As I had pointed out to the mayor, appointments were loosely made, with people waiting hours to be heard. I changed this so that everybody got an appointment for a specific time.

In order to hear all the cases, the fifteen members of the board traditionally broke out into five, three-member panels. Before I was chairman, the panels were set up without rhyme or reason, some with senior people and others with only junior board members.

I made sure that every panel had some qualified people. More important, I insisted that each panel give clear explanations for the decisions its members made. Before I was chairman, some panels made decisions that had no apparent basis. I remember one of the first newspaper calls I got was about an old department store that had been assessed at \$45 million. The board knocked that assessment down to \$8 million, and a few months later it sold for \$48 million. I looked at the decision and couldn't come up with a basis for it. All I could tell the *Washington Post* reporter was that it had been done before my time. I made sure we organized ourselves more professionally after that.

I was chairman for the four remaining years of my tenure on the board, at which time I asked not to be reappointed. By then Barry and I were good friends, and I was building my first office building. It didn't make sense for me to stay there anymore; I had reformed and professionalized the board, and I had an idea about starting a private tax appeals business of my own.

But my tenure was supremely important to my career. It made me one of the most powerful local government officials in the real estate industry. It also provided me access to the city's wealthiest and most successful business leaders; this helped me become a major political fundraiser for Barry and other local politicians. Even without the political advantages, I was now in the midst of things, and came to understand the business of development through the property tax appeals that I heard and got to examine. As chairman, I heard only the major appeals. Consequently I developed an understanding of how large commercial property transactions worked. And I knew that's what I wanted to do. So, once again, I started searching for an opportunity.

From Ground Zero: The First Deal

I had been looking at two different development deals. One was in Georgetown, right down the street from my office. (I had opened an office as my appraisal business grew.) It was an old incinerator site right on a hill overlooking the Potomac River. Twenty years later it would be redeveloped as a Ritz-Carlton Hotel and residential condo project, but then it was still owned by the city, and had been abandoned for many years. The other deal involved a public library branch and a police substation, sitting together on a very valuable piece of commercial property right in the west end of downtown. This site remains undeveloped today. I had approached the city about both properties when I came across the opportunity that would lead to my first building, an office tower at 2100 Martin Luther King Jr. Avenue.

When I opened the offices for my appraisal business, I leased more space than I needed, so I sublet the excess. One of the tenants was a real estate broker who introduced me to some potential investors for the two commercial property deals I was looking at—three guys who had offices in Chevy Chase, Maryland. Meanwhile my other subtenant, a mortgage broker who had served on the appeals board, came to me with *the* big opportunity. He had a client with a vacant piece of land in Anacostia, an economically neglected area targeted for redevelopment by Barry. It was primarily African American and had once been a thriving commercial corridor, but had deteriorated after the 1968 riots.

The city had already targeted the area for redevelopment and had leased office space in a building that was undergoing renovation. The empty site owned by tenant's client was across the street from that building; apparently the city had targeted it for redevelopment as well. A local

developer was negotiating to buy the site from my tenant's client, and they were haggling over the price. The landowner wanted \$900,000, but the developer only wanted to pay \$750,000. The developer said there was no other use for the property because the neighborhood was so run down, and he was right. He told the landowner that he was the only person who would ever buy it from him; to prove the point, he showed the landowner a letter signed by Barry, as mayor of Washington, committing the city to leasing office space in a building on that site if the developer could put one there.

My tenant showed me the letter and suggested I make an offer to the landowner. I thought about it and asked myself: If Marion Barry wants to lease space in Anacostia, why wouldn't he lease it from me? So I called my three investors—Stephen Maged, Stephen Greenleigh, and Gus Papaloizos—and asked them if they would like to partner with me in an office building preleased by the D.C. government. We would develop it and own it, but lease it before we started. They said they'd be very interested. So I set up a meeting with the landowner at Maged and Greenleigh's office.

When the landowner got there, I reminded him of my position—I was beginning to gain some prominence at the time—and said that if the mayor was willing to sign a deal with this other developer, he'd certainly be willing to sign one with me. I told him that I could clearly finance the deal through my partners. I also agreed to pay him the \$900,000 he wanted for the property. In exchange, he'd have to give me time to make my deal with the city.

It worked. The seller was convinced we could do it, and signed a contract. It was to become my classic structure: their price, my terms. He agreed to give us a normal

due diligence period, to check out the deal and arrange financing, and then time beyond that if we agreed to pay whatever it cost him to carry the property until we got the deal done.

I then wrote the city a letter, the mayor a letter, and the city council person in that ward a letter, advising them all that I now had the property under contract and that I knew the city wanted to lease office space in that location. The city had offered to pay \$22.50 per square foot to the original developer, so I offered them a deal at \$18.75 per square foot. And I said I would build a bigger building, so it would have a greater economic impact on the community.

My partners and I actually had a big argument about offering the lease for less. They wanted to go in at the same price, but I said we couldn't do it. Because of my relationship with Barry, we would have been crucified. We had to make the offer so defensible that Barry could never back out; if he did so, he'd look like a fool. The way around it for us was to put up a building of 100,000 square feet instead of 22,000 square feet. We'd make more money even if we kept the numbers per square foot down for the city. I had to fight my partners on that one, but I prevailed and in the end it saved the deal. Because when we announced that we controlled the property and wanted the city lease, all hell broke loose.

For starters, the city council person for the ward was upset because she was a friend of the other developer. I remember Barry calling me up—he and the city administrator were in his office and had me on speaker phone—and telling me: “Don, I was just with [the ward council member] and she stormed out of my office yelling and screaming about this deal in Anacostia.”

“Well, Mr. Mayor,” I said, “I was simply out there buying a property and trying to do a deal. But if it’s creating a problem for you, and if you want me to, I’ll walk from it. I was only trying to do what you said.”

“What do you mean?”

“Well, you wanted to economically empower the neighborhood, you wanted to support African American–owned businesses, and I’m an African American–owned business. I’m also a supporter of yours and your friend. Most important, I’m charging the city a lot less money. But if you want me to walk from the deal I’ll walk from it, if it’s that important to you.”

“Will you lose any money?”

“Yes, I will,” I said.

“Then no, I don’t think you need to walk from the deal.”

At that point the negotiations began. During the process, somebody—most likely the disgruntled developer—leaked the story to the *Washington Post* that I was getting an inside deal. An investigative reporter from the *Post* called me up. He’d already talked to some of Barry’s friends and political supporters. When I got the call, I calmly called one of the mayor’s aides whom I had worked with on the board and asked how I should handle it. I’d never done something like this before.

“My recommendation would be to go and talk to him,” she told me, “but tape record it so there are no mistakes about the facts.”

And so I did, scheduling a meeting and going over for an interview that seemed to last for hours. I was as forthcoming as I could be and kept reiterating that it was a less expensive deal for the city, that the city had already made a commitment to go into the neighborhood before I was in

the picture, and that the mayor was not doing me any favors. The story appeared on the front page of the *Washington Post* the next day, right on 1A.

The story didn't hurt at all, as it turned out. Actually it helped. Barry wasn't worried about it. He had already talked to me the evening before, to tell me it was a one-day story. And it put some pressure on him to move things along. We'd already signed a letter of commitment, but after the story came out we quickly finished documenting the final version of the lease.

As far as getting the deal done with my investors, that was another story. While it was my idea to do the office building, and I had seen the opportunity, I was missing one key ingredient to getting it done: the money. Actually I lacked two missing ingredients: I had no money and no track record. I needed a partner who had both. So I came to agreement with my three investors where I would deliver the deal and they would supply the money and credit, and we'd split the ownership 50/50.

The problem was that when it came time to close on the deal, they wanted to limit my share to the minimum requirement for a minority partner, which was 25 percent. We had also committed to contribute 10 percent of the profits generated by the project to a local nonprofit community development corporation (CDC) as well as donating the existing historic storefront to them after we developed the project. My new partners wanted the 10 percent to come from my side of the ledger as well.

The ensuing negotiations revealed an important lesson for me, and for anyone who wants to succeed in business. I was in a position of relative weakness, economically speaking. I *needed* the deal. But when it comes to negotiating,

you have to act like you're in a position of strength even when you're not. If you work for Credit Suisse or for Lehman Brothers, and you control a lot of money, it's easy to negotiate a deal. If it doesn't work out, there are no consequences. When you are on the other side, and you need the other person's money, it takes finesse.

If that's the case, you must have a couple of things. First, you've got to have a very good deal and you've got to have some greedy people on the other end who want to maximize their dollars. You've also got to be willing to walk away. And I mean walk away with nothing and have to start all over again and find somebody else.

There is one other thing you should do, especially for a first deal: You should protect yourself by hiring someone who has done it before and who knows the business. I hired a lawyer who had done big real estate transactions so many times that he knew what was reasonable and what we could get. He even had a client base so that if these investors didn't do the deal, he would take me to someone else and they'd do it and give me 50 percent without flinching.

I might not have carried it off without this attorney. Back then I was not very confrontational; I figured some money was better than none, and I was desperate to get the deal done. But my attorney, Louis Pohoryles, convinced me to believe in the value of my deal and my contribution to it.

This advice was particularly important because I had made one colossal mistake. When it came to putting the property under contract, my investors put it in their names and agreed they would assign it to a joint venture, once we made our deal. I would never make that mistake again, and controlling the property—usually by way of an option to buy—would become the basis for my future deals. But for

now, I remember the sting when they pointed out how they controlled the property.

Fortunately, my attorney fired right back that *we* controlled the tenant. And that proved to be a more important lever.

“You know what?” he told them. “There isn’t a shortage of land in southeast Washington right now. We’ll find some land elsewhere, and we’ll take the tenant and go somewhere else.”

The money guys had to think about it. They could keep the property and not do the deal with me and make no money; the property in Anacostia, without my tenant, wasn’t worth the money they were paying for it. They knew that and they knew that Barry wasn’t going to screw me. There was no way he was going to do a deal with three rich white guys from Maryland who were kicking the small minority guy out, especially one who was his close friend. So the negotiations really came down to a matter of playing hardball and staring them down.

We held a meeting in the boardroom in Lou’s offices, which took up an entire floor of a downtown high-rise. The boardroom was a large, glass-walled space that opened onto the lobby, with a long conference table that accommodated thirty or forty people. I was nervous because I had never negotiated anything close to a transaction of this size, and I was humbled by the sense of power the law firm exuded.

Maged and Greenleigh attended, taking seats on one side of the table, while I sat with my attorney on the other side. They were an impressive pair: Greenleigh, a former justice department lawyer who had attended Yale Law School, graying at the temples, and Maged, a wheeler-dealer entrepreneur with a beard, dressed in Armani.

Lou began the meeting, saying he just wanted to talk about the deal. “The deal we propose is a 50/50 deal together. Don’s bringing the tenant, he found the property, he found the project, and you guys will go and get the financing. You will build it collectively and everybody will make a lot of money.”

“We offered Don 25 percent and we’re giving the community development corporation another 10 percent,” Greenleigh said. “And that’s it; we’re not giving another penny more.”

“Well, if that’s the case, I guess this meeting is over. Don will take his deal to someone else,” Lou told them.

Talk about hardball. A few sentences later Maged and Greenleigh walked out. I went home disappointed but Lou told me not to worry, just to continue moving the deal forward with the city as if nothing were wrong.

I had to wait Maged and Greenleigh out for over two weeks. Finally Maged called and suggested we get together for a drink. We met down the street from my apartment, at the Westin Hotel. Maged made an offer of 40 percent for me and 10 percent for the CDC, which was called the Southeast Neighborhood Development Corporation. I said that if we went 50/50, I’d deal with the CDC myself. He agreed. It would be 50/50 across the board, including all fees, and I would be co-managing partner with Maged. I got along well with him from that point on, and we worked together as a team. That was another great lesson for me: Don’t take negotiations personally, and don’t get emotionally worked up. If the final deal is a good one, and both parties come out winning, the rough and tumble of holding your own doesn’t leave any scars. In fact, it may earn you a measure of respect.

The agreement I reached with the CDC was that their 10 percent interest would come off the top once we reached a certain level of income and that it would come from my share of that excess income. As it turned out, the Southeast Neighborhood CDC failed as an organization, and their interest went to the Anacostia Economic Development Corporation. I ended up buying that interest out for \$250,000 a few years after the launch.

We signed the deal, and construction of the building at 2100 Martin Luther King Jr. Avenue was started in 1987. I was twenty-seven. It would take eighteen months to complete the office tower, but it immediately began producing income in the form of a developer's fee that my partners and I split 50/50. More important, the deal, on paper at least, made me an instant multimillionaire.

As it turned out, it was a great deal for everyone. The investors put down only \$250,000 in cash and borrowed the rest, and we created a building that today is worth \$40 million and has produced an annual mid-six-figure income for me—and a similar income for my partners—each of the past eighteen years. I retain my 50 percent interest to this day. After I did the deal, I went and bought myself a reward for all the hard work: a \$1 million house in Washington's Embassy Row neighborhood, the future site of many political fundraisers.



EPILOGUE TO CHAPTER 1

My early years taught me numerous lessons, among them that you must believe in yourself, that you must put yourself

into the mix, and that you have to play politics in whatever business or industry you become involved in. Those years also taught me that it really does matter whom you know and whom you help—and who helps you—along the way. These things do bear fruit and do come back to you.

Another thing I learned was that, if it's your goal to be an entrepreneur, you need to put yourself in position to be an entrepreneur. That means being free to pursue opportunities as they arise. Being an independent sales agent, for example, is an entrepreneurial career. You don't really have a boss, you're not a nine-to-five worker, and consequently you can manage your own schedule. As an appraiser I was my own boss. Even before I started my company I was actually not an employee of Charlie Merkle but an independent subcontractor. It gave me the flexibility to work on the tax appeal board. I had control of that most valuable commodity: my time.

These are long-term, strategic considerations. On the short-term, tactical level, I learned some very important things as well.

The first was that, in any deal you go into, you've got to protect yourself. If you want to swim with the sharks, you have to bring a shark cage along or run the risk of being eaten alive. This can be something as simple as a confidentiality or noncompete agreement or a copyright or trademark. In my case the shark tank was a savvy, take-no-prisoners lawyer. He was necessary because of my blunder in failing to secure my share of the property in the beginning and because of my own uncertainty in the face of tough negotiations.

He taught me another important lesson: In any negotiations, you have to be able to stick to your guns.

A lot of entrepreneurs, working on their first deal, accept terms that are less than what they want—or deserve. This is only natural. In the hunt for the first major deal, there is tremendous internal pressure to get something done, to break that barrier and go on to the next level. There is also a need to make some kind—any kind—of financial headway.

At these moments, you must have the courage to not back down. You must present the appearance of strength at your weakest moment. Ultimately it comes down to the courage to walk. There is a saying in poker that sometimes you have to be willing to sleep in the streets. This means you have to be willing to lose all your money. A hand is sometimes so good you have to call it and no good if you don't.

This leads to the most important thing I learned in my first big deal. To continue with the poker analogy, if you want to have a strong hand, one worth betting on, you've got to hold some of the top cards. In other words, you have to control some key element of the deal. It may be an option, it may be a lease, it may be a patent, it may be a copyright, it may be a personal connection; when you come to the table to negotiate with investors—and you will have to, to raise capital—you must be essential to the deal you are making. In the case of the 2100 MLK property, it was my relationship with the tenant, and hence the future cash flow, that made the whole thing work. That control was more important than the money.

PEEBLES GROUND RULES

- Always believe in yourself.
- Master your business.
- Put yourself into the mix.
- Protect yourself from the sharks.
- Be your own boss in your profession.
- Be prepared to lose everything.
- Appear strongest in your weakest moments.

Peebles Principle #1: Control the Deal

When going into any major deal, you need absolute control over some key element. If you want to win as an entrepreneur, never negotiate a deal unless you are essential to it.