

# CRE PERSPECTIVE

## SOME PRINCIPLES OF REAL ESTATE COUNSELING

by Anthony Downs, CRE

### INTRODUCTION

My career as a real estate consultant began over 50 years ago when, while still in high school, I started counting pedestrian traffic on Chicago's State Street for my father's firm, Real Estate Research Corporation. After I received my Ph.D. in economics from Stanford and served in the Navy for three years, I began working full-time for my father's firm in 1959. Since then, I have been continually engaged in consulting. (In the early 1960s, I had a part-time appointment at the University of Chicago. In the mid-1960s, for two years I spent alternate weeks at the RAND Corporation and consulting at our Los Angeles office.) During those several decades, I have formulated some basic principles concerning real estate consulting that might be useful for others now doing such work. This article presents those principles and some advice about how to use them.

### UNDERSTANDING WHAT YOUR CLIENTS REALLY WANT, AND WHY THEY WANT IT

The first principle is that *it is important to know why your clients want you to do whatever they initially think you ought to do for them*. This may seem silly, because it should be obvious that each client wants you to answer some specific question about what he or she or their firm ought to do about something. But that may not be true at all. There are many reasons why people hire consultants besides actually wanting to discover the answers to the questions they ask the consultants. Many of these reasons are grounded in the politics of the client organization.

This raises the preliminary issue: *just who is the client?* Is it the person or group in an organization who hired you and will receive your report? Or is it the entire organization containing that person or group, since the organization will ultimately pay the bill? Government clients normally have to go through a formal competitive process to select consultants; so the client is quite clearly the whole organization. But private clients often select consultants without such

formal processes; so the principal client may be an individual or sub-group within an organization. When there are conflicts among factions and groups within an organization, it may not be easy to decide who is the "true" client. However, it is probably wise to put the welfare of the organization as a whole above that of any individual or group within it when they conflict, even if the person who hired you is that individual or in that group. Or at least you must point out the impacts, to the organization as a whole, of anything desired by that person.

The client may genuinely want to find the solution to the problem you have been asked to remedy. But that is not true in all cases. Often, the client wants you to help him or her persuade other people in the same organization or in other organizations to accept a course of action the client has already decided is the right one. You are really hired as a presumably "unbiased" source of wisdom who is expected to substantiate the client's views—and therefore makes those views more plausible, credible, or acceptable to others. In real estate, this is quite common. Borrowers want you to appraise a property at the level high enough for them to get the size loan they think they need. Lenders want to justify the huge amount they have already given to the borrower, etc.

When this is the case, the client wants you to arrive at a specific answer which the client already has in mind before you enter the equation. Therefore, the client is likely to put pressure on you to arrive at that answer, rather than some other answer he or she does not want to hear. This can create difficult situations—making it especially hard to collect your fee if your conclusion is not what the client wants to hear. I had such a client in Atlanta who wanted to build a privately-owned convention center on the site of an old steel mill. Since almost no privately-owned convention centers can make profits for their owners, I concluded that this was a bad idea. As a result, he refused to pay me. Fortunately, my firm had just been bought by the First National Bank of Chicago, and they rented a lot of space from him in an Atlanta office building. So they put the squeeze on him and he paid. He went bankrupt shortly thereafter.

Another reason to hire a consultant is to delay a decision until a lengthy study can be carried out. An example is requiring a lengthy environmental impact study before approving a project. *Research as delay* is common among politicians, who often appoint "fact-finding commissions" to postpone having to decide publicly some highly controversial issue until after the next election. By then, most

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people may have forgotten about it, or it may have receded in importance.

Still another reason to hire a consultant is to create someone else to take the blame for arriving at a potentially controversial conclusion or recommendation. If an executive has decided that a whole division of his company ought to be abolished, he may want to get someone else to recommend this so he can deflect the blame to an outsider who does not need to take the heat for long. This is related to giving more credibility to such conclusions, but is fundamentally different because the motive is to deflect criticism from the client to the consultant. Obviously, this puts the consultant in a difficult position. Consultants should be sure their scope of work is broad enough to explore all the important ramifications of the issue, which may initially have been narrowly defined by the client. If the consultants' recommendations will make many enemies in the client's firm, then those recommendations probably will not be carried out anyway, and the consultants will get a reputation for giving advice that is not followed.

Another function that consultants may be asked to perform is settling hot controversies within an organization about what ought to be done about something. If the leaders in the group do not agree among themselves, they may hire a reputable outsider to help settle the issue one way or the other. It is clearly in the consultant's interest to understand this situation before he or she makes any recommendations, because whatever the consultant says, it is bound to be attacked by somebody in the firm.

#### **UNDERSTANDING WHAT THE REAL PROBLEM IS,**

#### **REGARDLESS OF WHAT THE CLIENT SAYS IT IS**

My second principle has always been that *the consultant should never assume that the client actually perceives the real problem; often what the client needs is not at all what he or she thinks is needed.* This leads to the corollary principle: *spend a lot of time trying to discover what the real problem is, regardless of what the client says it is.*

One reason these principles are important is that, in relatively rare instances, *the client may be the biggest problem involved in the situation.* The CEO's personality, management style, or views about the state of the markets, may be both wrong and dysfunctional. That makes it very difficult to tell the client what the problem really is and still survive! In such cases, the consultant must make allies with other influential people in the organization who will support controversial conclusions about possibly dysfunctional individuals in high positions. This means consultants should normally define the scope of their work to include interviewing and getting data from people other than their immediate client contact, so they can discover the broader situation with some independence from the hiring officials.

In all cases, I ask a number of questions about the supposed problem just to be sure it is the real problem, rather than something else. Never take for granted that the CEO or other official who hired you knows the real issue. Doing this takes tact and diplomacy, because the client almost always thinks he or she knows exactly what is the matter or what needs to be done.

#### **ALWAYS TELL THE TRUTH, HOWEVER PAINFUL**

Once the consultant has identified the problem, the first and

most vital principle about how to carry out the assignment is: *always tell the truth, no matter how unpleasant it may be to the client.* In the long run, the consultant's reputation rises or falls on how honest and objective he or she is. This often puts a consultant in hot water, but I strongly believe it is the right way to go. I once told the head of a city planning department orally what my conclusions were from a controversial assignment he had given me. He was so horrified by possible adverse public relations implications that he refused to look at my written report; told me not to show it to anyone else; and urged me to destroy all copies! Yet he did not claim I was wrong, and he paid me without delay.

However, if your conclusions are not what the client wants to hear, show the client a draft of those conclusions before anyone else sees them, and listen to any complaints he or she has about just how you express the truths you have found. I was usually willing to re-phrase something that the client regarded as harmful or disappointing in ways that remained true, but might be less aggravating or challenging. The client deserves a chance to coat the bitter pill with at least a little sugar, if possible, while upholding the truth.

An important corollary of telling the truth is: *give the client the best advice you can today, regardless of what you said yesterday, last week, or last year.* You may have to state conclusions that seem inconsistent with what you said at some earlier time. That can happen either because conditions change, or because you now see it more clearly, or because you were just wrong in the past. I believe you are morally bound to give the best advice you can right now—that is what you are ultimately being paid for.

Another corollary of telling the truth is *never recommend a course of action, or acquiesce in one, that you believe is either illegal, immoral, or just plain wrong*. Consultants do not usually decide what will actually be done about something; that is the function of the client's senior management responsible for their own organization's behavior. But consultants do have the obligation to make their recommendations morally correct and financially sound. This principle can get you into really hot water. It cost me plenty to tell Mayor Richard J. Daley of Chicago (the father of the present mayor) that he ought to let me double the assessed values of homes in the ward of his residence, when he did not want to do that. Yet he had hired me to reform the Cook County Assessor's Office, and he told me to do it right. Assessed values in his ward were half of those almost everywhere else. It would have been wrong to ignore that fact. Even so, he never agreed with my doing what I knew was right, and in fact retaliated forcefully by cutting off all further business to my firm—even though the City of Chicago had been our largest client.

Another principle I have always followed is *don't leave it up to your client to draw out the implications of important findings you have made—draw them out yourself and put them in plain English the client can clearly understand*. If a market study shows there is very little demand for a new shopping center on a given site, do not just quantify the demand there, but point out that the center should not be built there. This was a key factor in American architects' designing many huge and financially disastrous office buildings throughout Asia in the early 1990s. They often knew the structures they were designing could not work economically, but since there was no

new business in the U.S., they went ahead with those projects anyway. I asked several whether they thought they had any moral duty to tell their clients that these projects were bound to fail financially. Most said "No!" I don't agree. It is especially crucial for economic consultants to spell out fully the implications of their findings for the potential success or failure of the projects involved.

In consulting on public policies, it is tempting for consultants to state only factual conclusions and leave the policy implications unstated—especially if they are controversial. I believe that is a disservice to the taxpayers who are paying the bills. On the other hand, if there are good arguments on both sides of some issue, then set forth both sets of arguments—do not just leave that up to other people.

This is related to another principle my father often stated: *be definite in your conclusions*. He always said, "I may be wrong, but I sure am definite!" People are not paying you to say, "On the one hand this, on the other hand that." They need to know "Which should I do—this or that?" Of course, some situations are inescapably unclear or inherently ambiguous. But it is important for you, the consultant, to give definite advice about what to do, not just set forth the factual issues on all sides of the problem.

#### **HOW MUCH RESEARCH SHOULD THE CONSULTANT DO?**

Another principle concerns the extent to which the consultant should go to investigate and analyze a problem. As an economist, I know that gathering and interpreting information is costly in both time and resources. Therefore, I try to estimate the cost of doing each job by balancing two opposite considerations. One is to be sure to have enough resources to reach

credible conclusions. If you are responding to a Request For Proposal, and it does not provide enough resources, do not pursue the job unless you can persuade the client to spend more.

On the other hand, the consultant should not expend more effort than necessary on research and analysis. The proper amount depends upon the possible cost of the client's making a mistake in arriving at a course of action. If a mistake could cost billions, then it is worth spending a lot of money to prevent it. If a mistake is not likely to cost the client or society very much, the consultant can cut off the amount of research much sooner.

This thinking was related to my Ph.D. thesis on political parties, in which I argued that it did not pay most citizens to become very well-informed about election issues. Why? Because the cost to them of *their* voting erroneously—that is, voting for the "wrong" party compared to the one they would have voted for if they had perfect information—was very small. After all, the probability that each citizen's one vote would actually decide the outcome was tiny.

I used to say that I could appraise any property in the world in 10 minutes. From there on out, it was merely a matter of making my appraisal more precise! But it is not worth making one's results more accurate than they need to be to prevent the client from making a big mistake.

How much research a consultant should do also relates to how much the client is willing to pay for the assignment. If the client does not think it is worth spending much to solve a problem, I do not believe the consultant should either—unless the consultant discovers that a really costly mistake might arise from under-investing in research on that problem.

## PRESENTING THE RESULTS AND FINDINGS

Some pragmatic principles I tried to follow concern how to present conclusions in the final report. These are as follows:

- Always include an executive summary of the major findings and implications at the beginning of the report. Spend a lot of time writing that section, because it is all that most people will ever read.
- Write in plain English with a minimum of complex or technical terms or jargon, and leave as little ambiguity as possible.
- Give explicit credit in your report to the people who actually did the work—especially concerning what they contributed to the report. Accounting firms sign only their firm names, even though particular partners are responsible for each assignment. But I always signed my own name and also had any major contributors sign theirs. I believe that helps build the reputations of associates, and strengthens their pride in their work.

## SHARING YOUR KNOWLEDGE AND CONCLUSIONS WITH THE REST OF SOCIETY

The last principle I will describe is not for everyone, but it has immensely benefited me. It is: *try to draw relatively broad social generalizations from the accumulation of detailed specific cases you deal with, so as to improve your own mind and the perspective of society on the field we work in.* Real estate consulting exposes its practitioners to a fascinating variety of situations and conditions rich in policy implications. Even though many individual assignments are narrow in scope, considering many of them together as drawn from your own experience provides an

opportunity to see a much broader part of the social and economic landscape. From an early age, I started writing articles and eventually books about conclusions I was able to draw from my varied experiences across the country. My books have hardly been best sellers—they are like most Brookings' books. They lack the sex and violence most Americans like to find in their leisure reading. In fact, most Brookings books are the type that, once you put them down, you just can't pick them up again! My books are similar, judging from their minuscule sales.

Yet the mental exercise of reflecting on daily experiences and correlating details to draw from them some broader conclusions has been both useful and an intellectual joy over the years. It stretches your brain to look beyond the limitations of any one assignment to the possible social and economic implications of many assignments considered together. There are plenty of publications looking for material, so you can likely always get your thoughts published in a magazine, journal, or on the Internet. And forcing yourself to generalize and put it in writing for others to analyze and respond to will sharpen your thinking and broaden your horizons.

Equally important, your ideas may contribute to a social dialogue that can help solve some of the pressing problems our nation faces, especially in urban areas. I hope you feel an obligation to share your knowledge and wisdom with others in ways that could eventually help improve society, as well as expanding your own mental horizons.

## CONCLUSION

Real estate consulting is a challenging, often exhausting, and frequently intellectually stimulating occupation. It is full of surprises!

The consultant does not usually choose what he or she will work on—those wanting something done choose the consultant! That often leads a consultant into unexpected and unfamiliar arenas requiring fresh thinking and new approaches. Yet, in spite of the variety of assignments that every consultant encounters, adhering to a few basic principles can make the consultant's life easier, more productive, and more rewarding in the long run. I hope the principles set forth above will have those effects upon each reader's experience.<sup>REI25</sup>

## NOTES

1. The views in this article are solely those of the author, and not necessarily those of the Brookings Institution, its Trustees, or its other staff members.
2. This is an edited version of a speech presented at the Spring 2000 meeting of The Counselors of Real Estate in Toronto, Canada, in June 2000.

## ABOUT THE AUTHOR

**Anthony Downs, Ph.D., CRE**, has been a senior fellow at the Brookings Institution in Washington D.C. since 1977. Before that, he was a consultant with, and then Chairman of, Real Estate Research Corporation, a nationwide consulting firm. Downs has written 20 books and over 400 articles on real estate, real estate finance, demographics, democracy, metropolitan planning, and housing, and urban policy.