

Some Observations on Real Estate Entrepreneurship

Are real estate entrepreneurs

born, or are they made?

I HAVE BEEN a small-scale entrepreneur for twenty-eight years, and have taught real estate entrepreneurship for nearly a decade. In addition, over the past thirty years I have befriended and observed innumerable entrepreneurs, including many legendary figures. I have read numerous books about entrepreneurs, as well as scholarly papers on the topic. I offer here some observations on entrepreneurship.

“Can entrepreneurship be taught?” is a common question. It is generally asked with a knowing smirk by someone who misunderstands the purpose of education. The answer is “Of course it can.” Education at its core is about efficiently

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passing along “what is known” on a topic. This involves a set of focused lessons that advance the student’s learning process. Assuming that focused lessons are twice as efficient as trial and error, sixty hours of student time in my class (twenty in class and forty outside of class) can generate the equivalent of 120 hours of insight. Sixty hours spent on my course amounts to a mere week of full-time work, but if a course can achieve in a week what would otherwise require two weeks to learn through experience, it must be considered a success. Yet in the context of a career, two weeks is a drop in the bucket.

Another important educational goal is to assist students to discover their strengths, weaknesses, and passions, and to help them to determine if they have what it takes. If the sixty hours committed to a course can save years of pursuing false dreams, or light a fire under someone, the course has been a success. In this context, I am reminded of the Monty Python skit in which a mousey chartered accountant tells a career counselor that he wants to become a lion tamer. After the career counselor disabuses him of the idea that lions are cute little furry animals that sit on your lap and play with string by showing him a man-eating lion, the man realizes that chartered accountancy is perfect for him. Better to learn such lessons in the comfort of a classroom than to be eaten alive on the job.

Entrepreneurship can be effectively taught. But while you can teach someone to play football, say, and even to love the game, you cannot teach them to be Bret Favre. Teaching can expose and excite, but it cannot create virtuosos. Being a professional, much less a superstar, in any walk of life requires a combination of innate skill and a lifetime of honing one’s game. Just as few young football players ever achieve superstar status, few entrepreneurs ever achieve the level of success of Albert Ratner, Steve Roth, or Steve Ross.

But by inspiring and helping budding entrepreneurs understand the challenges they will face, how to approach these challenges in a disciplined manner, and how to avoid making the “well-known” mistakes, it is possible to help them along the path to becoming an entrepreneur. As an educator, my goal is to move them along so they make mistakes that others have yet to make, and to allow them understand that making errors is what entrepreneurs do. And that success comes from solving, not avoiding, problems.

ARE THERE ENTREPRENEURIAL TRAITS?

All too often, people seek a cookbook approach to entrepreneurship: “Just do these things and you will become a billionaire!” But this is as foolish as saying

someone will be a star quarterback if he is the right height, weight, speed, IQ, and so on. While these factors tend to be correlated with success, they are far from perfect predictors. There is no formula for great quarterbacks, as they come in many sizes and shapes. But there are no 5-foot, 120-pound great pro quarterbacks. The same is true for entrepreneurs: they come in many different packages, with certain personality traits correlating with success, and others associated with failure.

Entrepreneurs are usually intellectual arbitrageurs rather than inventors. That is, they are more likely to tweak existing ideas than to create new concepts out of whole cloth. Thus, Steve Wynn's brilliant resort/casinos appropriate and combine the best elements of large-scale resorts, boutique retail, and quality entertainment venues in a way that enhances their complementarities. Alfred Taubman's shopping malls likewise combined elements found in ancient arcades with modern merchandising concepts found in the world's best downtown shopping. Neither created entirely new concepts, but rather put together existing components in a new way.

Successful entrepreneurs generally look at things differently from other people. While most people see *how things are*, entrepreneurs see *how they could be*. As a result, entrepreneurs must be able to sell their personal vision to their audience

(employees, vendors, customers, capital sources, and advisors), who does not necessarily share it. Absent the ability to sell effectively, entrepreneurs will fail to muster the resources necessary to implement their idea. Entrepreneurial sales ability involves being able to describe the vision in a simple yet sophisticated manner. A great entrepreneur is able to package his ideas into a presentation that is so simple that it can be grasped by an intelligent child. What could be simpler, for example, than Sam Walton's vision of everyday low prices built around economies of scale?

The ability to sell doesn't require PowerPoint or a thick consultant report. It does require many hours of thought about how to express a complicated idea in a simple manner. When I fail to understand an entrepreneur's pitch, it usually means that they are not ready for success. I encourage students who are preparing a pitch to think about the selling of televisions. Televisions are highly complex pieces of equipment that work due to an amazing combination of high-level electronics and physics. Yet how is one sold? The customer is told, "Push this button to turn it on and this button to change channels." No one would buy a television if the sales pitch consisted of electrical flow charts and discussions of wave theory.

The ability to present complex ideas simply is a critical trait of entrepreneurial success. But just as important is the ability

to persevere after repeatedly being told “no.” As social animals, we all love to be told “yes.” In fact, most people do everything possible to avoid being told “no;” the easiest way to do this is to conform. Thus, entrepreneurs proposing unusual and untested ideas are constantly being told “no” by customers, vendors, potential employees, government officials, and capital sources. And yet, entrepreneurs are not deterred, which requires somewhat odd “social wiring.”

Entrepreneurs believe that they can't fail because they will (somehow) figure out a way to make things work. Entrepreneurs view each “no” as a missed opportunity for the naysayer, not a personal failure. And yet most entrepreneurs are terrified of failure. This fear also forces them to be more flexible and pragmatic than most people, constantly altering their approach as they move forward. Anything to avoid the ultimate “NO!”

Successful entrepreneurs are willing to make decisions, knowing that they will need to change course many times on the fly. They are like a great quarterback scrambling for his life, yet still able to see things evolving around him so he can make a play. This adaptability is apparent in another quality of entrepreneurship. Entrepreneurs tend to believe that “the answer” is less important than the ability to quickly adapt if an initial answer leads them awry. It is perhaps the reason why

most lawyers and academics are poor entrepreneurs, as their training teaches them to search for the answer rather than selecting an answer, with a mind to changing it if need be.

The entrepreneur perceives risks differently from other people. Just as a great quarterback knows he will take some big hits if he is going to throw touchdowns, the successful entrepreneur knows there will be a lot of bumps on the road to success. And like a great quarterback, his fear is not getting hit (which is what a normal person fears), but rather that he won't complete the pass. Stated differently, entrepreneurs are more afraid of failure more than they are of getting hurt.

Entrepreneurs have a rare capacity to absorb their social and business environment. This is essential, as it allows them to see opportunities that others fail to see. Entrepreneurs tend to be avaricious readers of newspapers, trade periodicals, magazines, and analytic reports. Their reading even includes seemingly unrelated fields such as novels and history. Entrepreneurs do not read to learn the “story” but to understand how things “fit together.” This reading forms a mosaic of the world they live in, helping them identify the missing pieces of the mosaic that provide business opportunities.

Entrepreneurs also tend to seek the advice and counsel of various experts. This includes not only lawyers, accountants,

bankers, architects, and economists, but also those in seemingly unrelated fields: doctors, scientists, historians, artists, and writers. Again, these advisors provide the entrepreneur with additional pieces for their mosaic. The ability to create a mosaic of life is one of the most consistent elements I have found in observing entrepreneurs. Interestingly, entrepreneurs are less interested in mastering the analysis provided by these inputs than in abstracting bits and pieces to form their ever-changing mosaic.

Contrary to popular belief, entrepreneurs are not dreamers. They are extreme pragmatists. They do not imagine a perfect world where everything goes right and everybody wants their product. Instead, most are brutally realistic in their appraisal of the challenges they face. When someone tells me that everyone needs their product, I know I am listening to an unsuccessful pitch; no one has a product that everyone needs. Entrepreneurs realize this and possess the flexibility and vision to take on the challenges that would frighten off others.

Entrepreneurs are an unusual blend of studied pragmatic opportunism and blind determination. Once they have identified an opportunity and determined that it is realistic, they act with a sense of urgency. In fact, what distinguishes a good entrepreneur from a good corporate executive is the sense of urgency in pursuing a course of action. A good corporate execu-

tive in a well-established firm will meticulously scrutinize a business opportunity, consulting numerous committees, before embarking on a course of action. In contrast, the entrepreneur acts quickly, as it is only a matter of time before others see the same opportunity, and will perhaps attack it with greater resources than the entrepreneur possesses. We have all observed an entrepreneur execute a project with great success, and wonder, "Why didn't I do that?" The opportunity was obvious, the market demand was obvious, and yet most people did not pursue it. The challenge for entrepreneurs is to act before established corporations get around to addressing the situation.

Entrepreneurs must be smart enough to process information and identify opportunities. But being an entrepreneur is not about being a genius. One needs an IQ of 120, but not 150. Entrepreneurs come from many different social backgrounds, ranging from scions of wealthy families to new immigrants, and from places as diverse as Manhattan and Fayetteville, Arkansas. Today, most entrepreneurs are college graduates, though in previous generations this was not the case. But entrepreneurs do not always hold advanced degrees. I know successful entrepreneurs who have studied business administration at Wharton, music at Julliard, fine arts at the University of Southern California, and English litera-

ture at Amherst. It is neither education, super-intelligence, nor heredity that typifies entrepreneurs. What is common to every entrepreneur I have ever met is a total passion for what they are doing. It is both their work and their entertainment. It is how they make friends, as well as how they make their living. It is what they live to do, rather than what they do to live.

WHAT MAKES SAMMY RUN?

Students often believe that entrepreneurship is about getting rich—getting fabulously rich, overnight. But almost every entrepreneur’s story is one of an “overnight” success that took ten to fifteen years. It only seems like overnight because their stories did not appear in *Forbes* or *Fortune* until they were already established. This creates the impression that success—as opposed to notoriety—is instantaneous. This false impression is compounded by the fact that the typical person’s exposure to entrepreneurs is primarily through magazines and news profiles. But the successful entrepreneurs highlighted in the media are newsworthy precisely because they are atypical. Bill Gates and Steve Jobs are not typical entrepreneurs, nor are Trammell Crow, Mel Simon, Don Bren, or Gerald Hines. It is precisely their uniqueness that makes them interesting. Their success is

beyond the dreams of even very successful entrepreneurs. The truth is that most successful entrepreneurs are in their fifties and sixties and have net worth in the range of \$500,000 to \$10 million after years of work and struggle. While this is financially successful by any normal standard, it is far from what my students have in mind when they think of entrepreneurial success.

Entrepreneurs’ passion is to be successful in what they’re doing, rather than to get rich. Money is a by-product, although a comforting one. In fact, there are non-profit entrepreneurs. Sister Theresa was a great entrepreneur. She had passion, intelligence, and a vision of what could be done. She was terrified that she might fail in fulfilling her mission. Both she and Bill Gates are legendary entrepreneurs; one ended up the richest man in the world, while the other died poor. But both were extraordinary entrepreneurs.

I tell my students at Wharton that, with a few exceptions, the mere fact that they are at this institution means they will be able to earn enough to live a comfortable life. But it is not clear if they will have fun. I note that if they want to be an entrepreneur in order to get rich quick, they are making a big mistake, as they can make far more—at least in the short term—by working for Goldman Sachs, Morgan Stanley, or General Electric. They will work the

same hours, with less risk, and higher compensation. The question is: Will they be as happy? A real entrepreneur would not be.

I begin my course by asking students why they want to be entrepreneurs. The most typical answer is, “I want to be my own boss.” This may be a necessary condition for being an entrepreneur, but it is hardly sufficient motivation. Many people want to be their own bosses, but most lack the courage, vision, and passion to be entrepreneurs. It is this passion that explains why so many entrepreneurs remain active, often almost to the end of their lives. Their jobs are what they are, who they are, and what they do for fun. As they get older and enjoy the benefits of a lifetime of entrepreneurial success, they may put in fewer and more flexible hours, but with no less passion. In fact, many entrepreneurs stay on well after the market has passed them by, and their personal mosaic is a tattered ruin. One need look no further than Henry Ford, a great entrepreneur, whose belief in the black Model T lasted a decade or more past its useful life, and who nearly destroyed the Ford Motor Company. Ford’s story is a reminder that being your own boss often means having a bad boss, since most entrepreneurs are poor managers. They are so passionate about doing what they are doing that they fail to focus on the need to manage, frequently including themselves.

BETTER, FASTER, CHEAPER

Entrepreneurs do not possess identical skill sets. Some, like Gerald Hines, Steve Wynn, and Alfred Taubman, are brilliant with products. They master how real estate functions, and how to improve the physical product from a cost and usage perspective. They understand how properties will be used, and possess the rare skill of putting themselves in the place of the consumer. Consumer empathy is important, not only for high-end hotels, Class A office buildings, and luxury resorts, but also for mobile home communities, strip centers, and affordable housing. Most people lack the ability to understand, respect, and empathize with consumers’ behavior, and are thus unable to fulfill and enhance consumer’s experience. But those that provide a unique and superior value experience reap great rewards. Izzy Sharpe’s Four Seasons Hotel chain is a perfect example of this phenomenon.

Another defining attribute of entrepreneurs is the ability to control production processes, time schedules, and costs. Such entrepreneurs make generic products but they do it faster, more reliably, and more cheaply than their competitors. They possess the ability to control cost overruns before they occur, and to adapt to the unknowable events that will challenge timely product delivery. An example is Ron Caplan of Philadelphia Management,

who consistently delivers residential redevelopments at a significant cost advantage over his competitors.

Another skill that defines some entrepreneurs is an ability to sell, even if their property is inferior to, or more expensive than, that of their competitors. Great marketers not only describe their product in an appealing manner, but are also able to get customers to execute agreements. They are closers. They stand in marked contrast to most people, who are often good at describing the product of choice, but have difficulty closing the sale. Donald Trump leaps to mind as an example.

Another type of entrepreneur, although rarely found in the real estate field, excels at managing people. Such entrepreneurs are able to communicate their insights, skills, and passions to large numbers of employees. Sam Walton is perhaps the greatest example. Not only did he have a great business model but he was able to take it to extraordinary scale by creating a managerial environment that could replicate his vision. If one can make 10,000 people only 10 percent more productive, and each worker produces \$50,000 annually, the value creation is \$50 million annually, representing a present value of \$500 million or more.

Some entrepreneurs are great risk analysts. This sounds simple, but great risk analysts are able to evaluate and manage both the upside and the downside of their

vision in light of their limited capital (both financial and human). Jay Pritzker and Sam Zell come to mind in this regard. Such entrepreneurs focus on how to limit their downside, how to get out if they are unsuccessful in a way that does not cripple them, and how to identify the investments most worth making. These investment decisions are not simply based upon Internal Rates of Return and Net Present Values, but also on understanding what can go wrong and how to survive. For students, this is the most alluring type of entrepreneurship because they believe that their courses in risk analysis have prepared them for this task. But being able to calculate an IRR or NPV is very different from having a feel for the opportunities of the market, and being able to constantly adapt to changing conditions.

A final defining skill of some entrepreneurs is being a master deal maker. Deal-making is exemplified by legendary real estate entrepreneurs such as Mel Simon or Edward DeBartelo. There is seemingly no obstacle that a great deal maker cannot overcome. This takes enormous resourcefulness and social connectivity. It requires understanding what others are seeking, and how to help them to achieve their goals without compromising one's own objectives. It requires a belief that deal making is a positive-sum game. (It is also the reason that great deal makers are rare in the socialist countries of Western Europe

as well as Japan, where a zero-sum mentality prevails.)

Each of the above skills is rare, even among highly intelligent and educated individuals, but entrepreneurs must possess at least one of these skills to succeed. A small group of entrepreneurs possess two of these entrepreneurship skills, and legends are made of those who possess more than two. It is unrealistic for teenagers playing high school football to believe that they will become the next Peyton Manning; a more realistic goal is to play on a college team, and if successful receive a scholarship to a Division I university, and then if extremely successful make it to the NFL as a substitute for a season or two. It is the same for entrepreneurs. The young entrepreneur's goal should not be the next Bob Toll, but rather to be successful in developing his skill in a pursuit about which he is passionate.

The greatest difficulty in teaching entrepreneurship is to avoid creating the impression that success as an entrepreneur is the result of having a Big Idea. Was Ray Kroc's idea to make hamburgers of consistent quality throughout the country a Big Idea? Or Sam Walton's plan to sell quality merchandise at the lowest prices in town? Or Warren Buffett's strategy to make long-term value investments? Hardly. What distinguished these entrepreneurs, and made them legends, was not their idea, but rather its execution: "It's the singer not the

song." Tens of thousands of young men are big enough and strong enough to play professional football, but most cannot make it for the lack of execution—reliability, perseverance, consistency. Unlike Big Ideas, execution is neither glamorous nor easy to teach. Execution requires attention to detail, commitment, and a fanatical exploitation of one's skills. Don Bren's source of success is his commitment and attention to details. In football, great athletes who are well trained and able to repeatedly execute mediocre plays are more valuable than mediocre players who lack the skills to execute a great playbook. The same holds true for real estate entrepreneurship.

Entrepreneurial success is rarely about doing "something new." Most real estate entrepreneurs succeed by doing something better, or cheaper, or faster. If an entrepreneur can do any one of these three, he will be a winner. And if an entrepreneur can do it better, cheaper, and faster, he will win the Super Bowl.

In terms of execution, getting the right people doing the right jobs is the key to success. This entails selecting not necessarily the best talent, but rather the best talent for the assignment at hand, people who share the vision, and fit the budget. Too often managers are dazzled by résumés, and ignore the compatibility of a résumé with the task at hand. In addition, one's social networks and business rela-

tionships are critical in terms of successful execution, since entrepreneurs are not institutions and must rely on a broader network rather than their own firms. Great entrepreneurs are instinctive network builders. Most entrepreneurs treat people well irrespective of their job or status in life, and help people simply because they can. They do not engage in a “tit for tat,” in marked contrast to many corporate managers who do favors only if they believe the favor will be repaid. I urge students to treat the assistants of the executives they want to interact with as well or better than they treat the executives themselves. This advice eludes most students (and most corporate employees). They do not understand that if executive assistants dislike them, the “big boss” will dislike them, too, as bosses respect their assistants’ opinions. This is not to suggest that entrepreneurs are saints, or that all of them are easy to work with. After all, they are human. But entrepreneurs generally treat people with greater sincerity and respect than most corporate managers, creating a support network to offset their lack of institutional infrastructure.

The fact that entrepreneurial success depends upon execution, rather than Big Ideas, leads most academics to underestimate entrepreneurs. But in fact in every endeavor in life, virtuosity is defined by execution rather than idea. Milton Friedman was smart and had many

ideas—some of them big—but his stature as an economist derived from his skill in executing his research agenda. Even in the idea business, execution trumps ideas.

Great athletes adapt to different game conditions, weather conditions, and opponents, finding a way to prevail. The same is true of great entrepreneurs. They make decisions, fully aware that their decisions are flawed. But unlike Hamlet, entrepreneurs realize that the question is not “To be or not to be?” but rather “What’s next?” It is entrepreneurs’ high tolerance for change that allows them to succeed where others fail. But this tolerance for change can also become their enemy, as they can underestimate the market’s resistance to change. This is because the only thing most people hate more than change itself is the person responsible for the change. Thus, to be able to continually adapt and change requires that entrepreneurs have relationships and employees that are compatible with the entrepreneur’s pattern of behavior. They must constantly sell and motivate people about the necessity to change, in spite of natural resistance to change.

The entrepreneur rarely says, “It’s okay because we’ve always done it this way,” but frequently asks “Why don’t we try this?” This characteristic can be risky, and has led to the downfall of many entrepreneurs, as they can find it difficult to know when not to change. This becomes more

difficult the more one succeeds, as we all tend to believe our headlines. Entrepreneurs are constantly at risk of hubris, believing they can achieve anything to which they set their minds. For this reason it is essential for entrepreneurs to have advisors who are perceptive, loyal, and brutally honest (though perhaps leavening their advice with honey). The need for such advisors grows the more successful the entrepreneur becomes. The successful entrepreneur must rein in the human tendency to avoid dissent.

WHAT ARE THE RISKS?

Everyone takes a shower in the morning. Most get into a car, drive to work or play, ride in elevators, and sit in their kitchen or dining room to eat. Each of these activities presents the risk of serious bodily injury, and perhaps even death. Yet, most of us go through the day without thinking we took a risk. This underscores the difference between risk, perception of risk, and the management of risk. Many things that are quite risky are not generally perceived as risks, partially because we take steps to mitigate and manage risks (seatbelts, elevator safety features), and partially because the activities are routine. Entrepreneurs see the risks they face in a similar manner.

Entrepreneurs manage risk by specializing in a particular market or product

type. Today's world is too complex for anyone to master all geographies and product types. Successful entrepreneurs who cut across geographies and product lines invariably started as a specialist in a single geography, or in a single product, slowly growing beyond that niche. Even the prolific developer Trammell Crow spent his early years building everyday warehouses in his hometown of Dallas, branching out only after establishing a competency and track record in this niche. One of the most difficult things to convey to students is that in order to be successful entrepreneurs, they will have to specialize, to develop a knowledge and skill base that allows them to effectively manage risk. This frustrates students, who are worried about being pigeonholed. But in this case, being pigeonholed is simply being knowledgeable. Great real estate entrepreneurs must know every deal in their market. They must know every tenant who is looking for space. They must know the capital sources seeking to do business in their product niche and market. They must know each building in their market, why it works, and its limitations. Although amassing this knowledge base is time-consuming, it is critical, since no one can master multiple markets, particularly early in their career. It is a common, and usually fatal, mistake of young entrepreneurs to fail to specialize.

Another way entrepreneurs manage risk is to use other people's money,

exchanging their sweat for a slice of the profit they create for others who do not possess their knowledge and skill base. This underscores the need for an identifiable expertise, as without specialized knowledge, why would anyone entrust the entrepreneur with their money? But entrepreneurs also put their money at risk side-by-side with their investors because they believe in their vision. One of the quickest ways to distinguish a true entrepreneur from a fake is to determine if they have their money side-by-side with their investors. An entrepreneur's investment may not be as large as that of other people, but real entrepreneurs believe in their vision and want to put their money to work in their deals, rather than let it sit in a well-diversified portfolio of stocks and bonds.

While entrepreneurs face many risks, perhaps none is greater than the risk to one's reputation. This is because a reputation is difficult to establish, but very easy to lose. It takes a long time to build trust, but trust can be lost in an instant. And reputation is the most valuable asset an entrepreneur possesses, as it yields increasing returns over one's career. I was once asked by a student how to build a great business network and reputation. I responded that if you always do the very best you can to fulfill what you said you would do, help others simply because you can rather than because you believe it will directly benefit

you, and do this for the next thirty years, you will have a great reputation and network. In short, a great reputation takes twenty-five to thirty years to create.

Young entrepreneurs will receive little cash compensation relative to what they could be earning working for a major company. They may even have to be out of pocket for payroll and operating expenses. I am constantly asked by recent graduates with high-paying jobs in management consulting or investment banking how they can receive cash compensation equivalent to their current pay, but get the upside reward of an entrepreneur. My answer is that they can't. As Ron Terwilliger tells his partners, entrepreneurship is a "get rich slow" exercise. In the beginning, this means a relatively meager lifestyle compared to one's corporate peers. Entrepreneurship is about building a business, not making a quick killing. There simply is not enough money to be made in early entrepreneurial opportunities. Instead, early entrepreneurial opportunities generally help outside investors get rich while establishing the foundation for a long entrepreneurial career. Early entrepreneurial opportunities are best viewed as investments in human capital, building the track record, reputation, and expertise that will generate more profitable opportunities in the future.

Entrepreneurs face significant political, product, and market risk. By knowing

everything that is happening in their market, and by building relationships with tenants and information sources in their market, entrepreneurs mitigate their operating risk. Similarly, by becoming an integral part of their community, entrepreneurs develop a network that helps them understand what is going on in the community and how it affects them, as well as learning how to legitimately influence political outcomes. This is particularly important for developers. Entrepreneurs involve themselves in community service, as it provides them with introductions to key players in their community. This is not to suggest that they are not interested in the charities, but rather that in addition to doing good, these networks also help them do well. Again, it is a positive sum relationship.

Great entrepreneurs study competitive products and competitors, both to analyze what these competitors do well and to determine what opportunities they leave in their wake. They must understand the difference between fads and market realities, for while money can be made from fads, long-term success cannot be made by fads (unless you're Ron Popeil, the legendary inventor of gadgets sold on TV). Great entrepreneurs avoid the pitfalls of fads by concentrating on market fundamentals. Think of Warren Buffett, who during the Tech Bubble stayed true to value, investing even when it was temporarily out of favor.

Entrepreneurs seek the advice of experts, not to generate voluminous reports that can be put in a file somewhere in case a lawsuit occurs (as many large corporations do), but rather to gain insights. This input filters into their mosaic of life. Developer-entrepreneurs also understand that paper is cheap, but bricks and mortar are expensive. That is, they spend endless hours analyzing things on paper before committing to construction.

Perhaps the ultimate risk-mitigant is the entrepreneur's passion. After all, if they are not excited about what they are doing, why should others be excited? If they are unclear as to why they are doing things, how can they expect others to share their vision? In the end, entrepreneurs manage risk by doing it "for themselves" rather than doing it "for money." While most entrepreneurs desire to make money (and lots of it), money is the derivative of their success. Most entrepreneurs' passion allows them to see that there's plenty of money to go around if they can successfully execute their vision. They seek a win-win exercise for all parties involved. For only by making it a win-win exercise will they be able to have repeated success as an entrepreneur. This is particularly true, as win-lose situations do not enhance reputation as effectively as win-win situations. In an unspoken way, great entrepreneurs understand that they'll ultimately spend a lot of time trying to figure out how to

effectively give away their money, so a fixation on making more at the expense of their reputation is not worth the possible short-term gain.

RAISING CAPITAL

Real estate is highly capital-intensive, since development and buying buildings and land requires capital well in excess of the entrepreneur's wealth. Hence, successful real estate entrepreneurs must raise outside capital. Raising money is rarely fun, but if the entrepreneur is passionate about the objective, has realistic goals, has a reputation commensurate with the objective, and can explain the vision in a clear manner, money will come. Failure to raise capital generally reflects failure in at least one, if not all, of these categories.

To raise money requires a reputation commensurate with the task at-hand. If an entrepreneur's reputation is small, so too must be the project. As reputation grows with success, so too will the capital that can be raised. The entrepreneur also must be able to tell his story in a clear and simple manner, in two or three simple sentences. What is the opportunity and why have others not pursued it? Why will the entrepreneur be successful in the pursuit of this opportunity? How does the plan compare with what others are already doing?

In my experience, a complicated pitch reflects a lack of understanding of the business opportunity. One of the easiest ways for an entrepreneur to convincingly convey his story is to risk a significant amount of his own net wealth in the project, side-by-side with the money of investors. The failure to do so often is—and should be—a death knell during capital raising.

Raising money takes time. While a project may be of utmost importance to the entrepreneur, it is just another capital commitment consideration for the people from whom he is seeking capital. Capital sources will rarely have the same sense of urgency about a project. Therefore, a successful entrepreneur must be respectful of the time-line of capital sources, and yet be insistent on moving the process along. Sometimes this means that fund raising will have to be concluded at a lower level than initially intended. But “declaring victory” is important when raising capital, as it allows the entrepreneur to establish that he has done something other than spend years trying to raise money.

In many ways, capital raising is less about raising money for the current opportunity than raising it for an opportunity two or three down the line, when the entrepreneur's reputation is more established. This is particularly true with respect to institutional capital sources, which are hesitant to invest with young entrepreneurs. Hence, when meeting a potential

capital source, even though the entrepreneur is telling the lender about the opportunity at hand, he must realize that the lender's logical answer for this opportunity may be "no." It may take one or more proven successes before the entrepreneur can establish a successful relationship with a lender.

Entrepreneurs must master leverage, which can be either a great friend or a cruel enemy. Generally, entrepreneurs think in terms of financial leverage, with greater debt enhancing their expected returns. But great entrepreneurs understand that nothing ever goes according to plan. As a result, debt that is wonderful on the upside is very unforgiving on the downside. And the entrepreneur's key asset—reputation—is even more dependent on his behavior in bad times than in good times. Winning gracefully is easy; losing gracefully takes class.

Great entrepreneurs understand that in spite of their best efforts, they will experience difficult times, and that the key to success is to survive the inevitable downturns. They must have the relationships and capital necessary to make it through the hard times. Hence the importance of "getting rich slowly," as taking on less debt means the entrepreneur will survive the downturns.

Another type of leverage is managerial leverage: identifying the right people, putting them in positions where they can

grow and succeed, motivating them effectively, and facilitating their success. Managerial leverage can be enormously profitable, but requires keen judgment and generosity. Great entrepreneurs have staffs who want them to succeed, not because if the entrepreneur succeeds they will receive better compensation, but because they are on the entrepreneur's side. Great entrepreneurs understand that they need excellent people around them. And they understand they will need these people most during the hard times. If an entrepreneur is successful in terms of both financial and managerial leverage over a prolonged period of time, he or she will become a legend.

Being an entrepreneur is not about a bank account, nor is it about prestige or headlines. It is about a life journey of enjoying what one is doing. It is about the opportunity to help people, whether they are customers, employees, partners, or capital providers. It is about developing long-term relationships. It is about retiring not when one can, but when one wants. This is what it means to be an entrepreneur.

So where does all this leave us? Entrepreneurship can be taught, with future entrepreneurs aided by such courses. But entrepreneurs will never be created by books, case studies, and lectures. Yet, entrepreneurship courses serve a vital purpose: to underscore the importance of entrepreneurs to growth and dynamism of our economy. They are agents of

change who challenge existing conventions. Their successes lead to new conventions, producing greater wealth and prosperity for society. Even their failures invigorate the economy by marking the path forward. Courses in entrepreneurship demonstrate that entrepreneurs succeed not by luck (as we all have luck), but rather by the focus and determination of entrepreneurs to capitalize on their luck. Entrepreneurs are not the kings of the system, but rather constantly challenge the kings, keeping the established business class ever-vigilant. In short, they are the underappreciated drivers of progress. And this should be taught to all members of the business community.