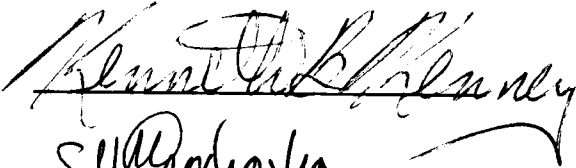
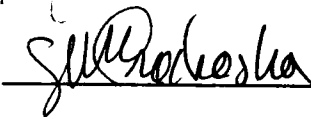


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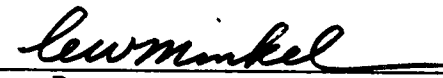
I am submitting herewith a thesis written by Teresa Marie Irwin entitled "Commercial Real Estate Developers in Knoxville, Tennessee: Self-Perceptions on Career Preparation and Personality Trait Prerequisites." I have examined the final copy of this thesis for form and content and recommend that it be accepted in partial fulfillment of the requirements for the degree of Master of Science in Planning.


James A. Spencer, Major Professor

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Date August 12, 1986

COMMERCIAL REAL ESTATE DEVELOPERS IN KNOXVILLE, TENNESSEE:

SELF-PERCEPTIONS ON CAREER PREPARATION AND

PERSONALITY TRAIT PREREQUISITES

A Thesis

Presented for the

Master of Science in Planning

Degree

The University of Tennessee, Knoxville

Teresa Marie Irwin

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ABSTRACT

The purpose of this study was to research the commercial real estate developer, a topic that has received too little attention. Information on the developer will be useful to those individuals who work with him, and those interested in pursuing a career as one. An increased understanding of the developer could improve working relationships because more effective negotiations can take place. Knowledge of the developer will also increase individuals' awareness that some people are not suited to become developers because of various prerequisites.

The method of analysis included personal interviews with fifteen commercial real estate developers in Knoxville. The interviews were structured as a number of open-ended questions which were recorded on tape. This research approach allowed in- depth probing and follow-up questions. The research also included a brief literature review of the entrepreneur which provided the framework for the interview questions.

The study provides insight on the commercial real estate developers' background, education, and work experience. His procedures for acquiring capital and developing "connections" are also disclosed. In addition, the developers' personality traits are identified.

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CHAPTER I

INTRODUCTION

The subject of this thesis is the commercial real estate developer. The research serves two purposes. First, it supplies information on the developer. This will be useful to those individuals who work with him in the community building process. Second, it provides guidance to those interested in pursuing a career as a developer.

Background and Need for the Study

The decision-making system associated with urban expansion is dynamic and complex. The actors are affiliated with either private enterprise or government. One of the actors, the private real estate developer, plays a central role in this system. He is the catalyst among the other actors in the decision-making process. This process involves a wide spectrum of decisions made on many levels with many direct and peripheral interests. They range from raw land owners, financial intermediaries and lenders, architects, contractors, the framers and administrators of public policy, regulation, and investment decisions, to the buyers or tenants of the completed project.

Greater insight concerning the real estate developer could produce an increased understanding of the urban decision-making process and how the private sector operates. Unfortunately, there is a significant lack of information available on the developer who plays the central role in this process. This represents an opportunity to conduct research in a largely neglected area. Clawson (1971, p. 78) has written:

The fact which dominates this chapter [The Chief Actors in Urban Expansion] is how little we know about the various actors in the decision-making process. Ideally, one should have information on the personal profiles of the individuals concerned--their age, education, income and wealth, status, and other measurable socioeconomic characteristics. Still more useful would be information on their mental and emotional processes--on what "makes them tick" as far as decisions about urban land use are concerned. There must be many variations among the many thousands of persons who make important land use decisions. Actually, almost no information is available about them. From what does exist, one can draw inferences about the actors themselves but only within wide limits, and one cannot be sure that all important characteristics of decision-makers are revealed.

Information on the developers' "mental and emotional processes--on what makes them tick" would be beneficial to planners. Public planners have traditionally focused their activities on securing orderly development of the physical environment. It is private enterprise that the planner attempts to regulate. Martin and Munger (1965, p. 295) have written:

Ours is an economic system in which the great bulk of activity is conducted in the private sector, with public authority providing a framework of regulations. This is the case with urban real estate development. Business firms initiate the action: public authority, reacting to the needs or desires of private interests, responds to restrain, modify, or implement private decisions. With notably few exceptions, in real estate development the private firm provides the initiative to which the public agencies respond.

The planner needs greater awareness of the motives, capabilities, personalities and constraints of real estate developers. Planners unfamiliar with the developer and his role could create a situation in which ineffective negotiations take place. Such a lack of knowledge is counterproductive because the developer is a frequent client of the planners' services (Tremblay, 1977, p. 5).

Information on commercial real estate developers would also be useful to individuals aspiring to become one. Do they have realistic expectations about their ability to become a developer? At least four prerequisites are possible. First, the individual must be knowledgeable about real estate development. This knowledge may be obtained through education or experience, or a combination of both. Second, he must have access to capital. Third, he must have the ability to develop "connections." Fourth, he must possess certain innate personality traits.

There is some doubt among professionals as to whether or not a student can be taught real estate development. One argument is that the developer's qualities are innate. An example of an innate quality is instinct. Often it is the developer's instinct that leads to success. Instinct, or "gut feelings" cannot be taught in school (Lipman, 1985, p. 23). Other innate qualities include risk-taking, motivation, creativity, and imagination (Casson, 1982, p. 35).

Furthermore, those professionals who believe real estate development cannot be taught are fearful that business school graduates will overrun the traditionally entrepreneurial field eliminating much of its creativity (Lipman, 1985, p. 23). Business education, especially at the graduate level, appears to discourage entrepreneurship. It is aimed at preparing students to work for others (Copulsky and McNulty, 1974, p. 34). The emphasis with much formal education is conformity of opinion. It may impose uniform attitudes thereby destroying the entrepreneur's individuality (Casson, 1982, p. 357).

Formal education also has an opportunity cost. It is time that could have been spent acquiring work experience. Such "on-the-job training" pursued after a formal education delays the start of the entrepreneur's career (Casson, 1982, pp. 356-357).

On the other hand, some real estate professionals claim a formal education can contribute. It can educate aspiring developers to avoid repeating yesterday's and today's mistakes. For example, it can increase awareness on how to avoid today's severe overbuilding. Another example would be to discourage the novice developer's notion that if the bank agrees to finance a project it is okay to build (Lipman, 1985, p. 23).

A formal education can also enhance many of the developer's basic skills. These include deal-making, financing, legal aspects, and managing a large construction project (Silver, 1983, p. 55). Educational qualifications can also reduce some constraints associated with acquiring capital. A knowledgeable entrepreneur will have easier access to other people's money (Casson, 1982, p. 389).

There is research that indicates entrepreneurs can learn through experience or formal education. The research further indicates the probability of success is highest for those entrepreneurs who have both (Vesper, 1980, p. 23).

The aspiring developer must also have access to capital. Most developers try to borrow the maximum amount possible (Lorimer, 1978, p. 61). This is difficult for the first-time developer because the lender perceives an even greater risk. Until a successful "track record" is established, access to capital will be a major constraint.

Developers often minimize this barrier by borrowing from family and friends, or by obtaining a partner who has the necessary capital (Casson, 1982, p. 387). He has to sell his ideas to those who have resources and convince them of the soundness of his project (Longenecker and Schoen, 1975, p. 29). If the entrepreneur's project is outstanding, capital is always available (Swayne and Tucker, 1973, p. 147).

The aspiring developer needs "connections." Prior to working, he will have to form numerous external contacts. These include lenders, government agencies, and sometimes competitors. Some contacts will be easy to form, but others may be more difficult (Vesper, 1980, p. 44). One of the best ways to locate wealthy investors is through a network of friends, acquaintances, and advisors (Stevenson and Roberts, 1985, p. 224). The network is often developed through participation in community activities and professional organizations (Smith, 1967, p. 25).

The literature on entrepreneurs, of which commercial real estate developers are one subgroup, indicates that only a very small percentage of the population are suited to become developers because of the scarcity of three requisite personality traits. The first one is the felt need to control and direct. Developers do not like to operate with an authority over them. They also feel they can do a job better than anyone else. They are totally committed, and have a strong self-confidence (Welsh and White, 1978, pp. 23-24).

Perhaps the most obvious personal trait of the developer is his intense motivation. A developer's primary source of motivation is

self-interest. He operates primarily to optimize profits (Casson, 1982, p. 25). Profits from single-family housing construction are often not as substantial as income producing properties. Therefore, the commercial real estate developer constructs high-rise apartments, offices, shopping centers, and industrial buildings. Few developers are active in a single field and typically diversify. Expanding the number of projects as quickly as possible is often done to maximize profitability (Lorimer, 1978, pp. 62-63). Although his central objective is to make money, other motives may include professional satisfaction, community status, social contribution, and a sense of power (Baty, 1974, p. 22).

High profits sometimes require high risks. Thus, the third personal quality an entrepreneur should have is willingness to take risks (Young, 1983, p. 22). Many individuals are poorly suited to become developers because they are not risk-takers. They like to think of themselves as risk-takers, but in reality they are not (Lipman, 1985, p. 23). The only way to determine one's risk-taking willingness is to try it out in practice (Casson, 1982, p. 344). Unfortunately, one seldom has an accurate picture of the risk confronting him, or how to evaluate it. There are situations which defy quantification or are nonfinancial (Longenecker and Schoen, 1975, p. 28). It is often questionable whether the developer recognizes the degree of risk when he starts a project (Baty, 1974, p. 17).

Psychologists have attempted to identify all the personality traits of the entrepreneur. A concise set of descriptors that can be universally accepted is lacking (Taffi, 1981, p. 25). As a result, some claim

that entrepreneurs do not form a homogenous group (de Vries, 1977, p. 42). A single psychological profile of the entrepreneur and his personality traits fail because numerous counterexamples can be found (Stevenson and Roberts, 1985, p. 2).

Problem Statement

Many individuals do not have an accurate understanding of the real estate developer. Due to this lack of knowledge, those who must work with him are often ineffective. In addition, many individuals aspiring to become developers have unrealistic expectations. They are not aware of the existing prerequisites. A review of the literature indicates that there is a substantial lack of information concerning the real estate developer and "what makes him tick."

Answers to the research questions set forth below are meant to provide information on the real estate developer for those who must work with him and those interested in becoming one:

Primary Research Question

What are the career preparation and personality trait prerequisites for becoming a commercial real estate developer?

Secondary Research Questions

1. What academic preparation is most useful for becoming a developer?

2. What type of work experience is ideal for career preparation as a developer?
3. How does the new developer obtain equity and borrow capital?
How does this change over time?
4. What are the important "connections" a developer should have and how are they developed?
5. What personality traits are characteristic of a developer?

Chapter II will outline the methodology used for conducting the thesis research. The presentation of the interview results with commercial real estate developers in Chapter III focuses on their background, education, work experience, financial sources, connections, and personality traits. Chapter IV will provide a brief summary and conclusion.

CHAPTER II

METHODOLOGY

This chapter will outline the procedure used to select the individuals for the study, the research approach, and will describe how data was collected and recorded. The limitations and assumptions associated with the thesis are also described.

Scope and Interviewees

Scope

This study is limited to commercial developers in Knoxville, Tennessee. This limitation was due to the author's financial and travel constraints. These constraints prevented the inclusion of other cities into the study area. Other cities considered were Nashville, Tennessee and Atlanta, Georgia. However, the author believes that there were certain advantages with restricting the study area to Knoxville. First, the author was familiar with the city and the development projects of the interviewees. This permitted the author to be more knowledgeable in structuring the interview questions. The interviewees may have even been more sympathetic in allowing time for an interview because the author was living in Knoxville and studying at the University of Tennessee. Second, the author could reschedule cancelled appointments more conveniently than if they had been out of town. Also, additional interviews could be scheduled if necessary.

Interviewees

The interviewees for this study were Knoxville's commercial real estate developers. Since there is an absence of a "master list" of Knoxville's commercial developers, recommendations were taken to construct the sample. The referrals came primarily from planning professors and Russell Newman, Principal Planner for the Knoxville/Knox County Metropolitan Planning Commission. The only criteria given for referrals was that the developers be primarily involved with commercial rather than residential development. The only reason for this focus is the author's personal interest in the commercial sector. Fifteen names of commercial developers in Knoxville were recommended. These fifteen developers are representative of varying degrees of development experience. They range from the aspiring developer who has just entered the field and is waiting for his first project to materialize, to an established regional mall developer with a successful "track record." They include full- and part-time developers with projects as small as 20,000 square feet, or as large as 1,000,000 square feet.

Research Approach

The primary research method used in this thesis is descriptive. Library research and personal interviews with Knoxville's commercial real estate developers were conducted.

Literature Review

A review of relevant business and real estate books, journals, and newspapers was undertaken. Materials on the subject of the commercial

real estate developer are very limited. However, the material that was available was researched.

The lack of material on the commercial real estate developer resulted in the author conducting additional research in a related area. A review of literature on entrepreneurs, of which commercial real estate developers are one subgroup, was undertaken. There is extensive literature on the entrepreneur. Information on his education, work experience, financial sources, and personality traits was collected. The literature provided a general explanation of prerequisites influencing one's ability to become an entrepreneur/developer.

The library research provided a framework from which the interview questionnaire was formulated. The literature was also the basis for some conclusions.

Personal Interviews

Personal interviews with all fifteen of the recommended developers were sought. Prior to the interviews, letters were sent to every developer informing them of the author's research objectives. They were also notified in the letter that they would be contacted by telephone to schedule an appointment which would be flexible according to their work schedule.

The face-to-face interviews consisted of a number of open-ended questions. The interviews were recorded on tape. Only in two cases out of fifteen was a taped interview declined. Recording reduced the

likelihood of misinterpretation regarding an interviewee's response through the ability to confirm any questions that arose at a later date by simply replaying the tape. In addition, it enabled the author to use exceptional material for quotes.

Personal interviews were chosen as the best research approach due to the small sample size of fifteen for the study. A higher response rate can be expected because individuals are more reluctant to turn down a face-to-face interview whereas a questionnaire can easily be discarded. Personal interviews also reduce the number of "no answers" because the interviewer is present to clarify any confusing questions. This research approach also allows in-depth probing and follow-up questions which enables the interviewee to express himself beyond a standardized survey form (Babbie, 1983, p. 229).

Data Collection and Recording

Data Collection

Of the original fifteen developers recommended for the study, five declined. They did not have time for an interview. Of those that declined, one developer, who was the President of the company, willingly offered a substitute developer who worked for him. It was the author's opinion that the interviewee was indeed the best substitute in the company for the President. As for the other four that declined, substitutes were chosen on the basis of referrals from other developers who had previously been interviewed. These were developers whose names had not been recommended originally when the research began. Based on the

author's judgment, each replacement developer was sufficient in that they met the research criteria of being primarily active in commercial development.

During the interview, a questionnaire form was used by the author to write down key responses. All fifteen interviews were held at the developers' offices with two appointments scheduled after regular working hours. The interviews lasted anywhere from thirty minutes to two hours with the average being an hour and fifteen minutes.

The fifteen interviews took four weeks to complete. As few as two interviews a week, up to as many as three a day took place during this time frame. The lag in data collection was due to the developers' business and travel schedules which had to be accommodated.

Data Recording

Each interviewee was assigned a code number for data recording purposes. The assigned number was used to protect the confidentiality of each developer's responses. The tapes were transcribed by replaying each one twice. Data from the tapes was transferred to a standardized questionnaire form for each respondent for easier analysis (see Appendix A).

The developers' responses to various interview questions have also been tabulated to allow quick reference. The tables are located in Appendix B rather than integrated throughout the text. This enables the reader to compare the developers' responses with respect to different variables. The tables include information on the developers'

background, education, work experience, financial sources, connections, and personality traits.

Limitations and Assumptions

Limitations

The major limitation of this thesis is that it focuses solely on the commercial real estate developers in Knoxville, Tennessee. Many Knoxville developers are not "true developers" in the sense that they are involved in other real estate activities. This is primarily because Knoxville is currently a slow-growth area. Therefore, its developers have to be active in other facets such as brokerage, management, and/or appraisal while at the same time developing.

Another limitation to the study is that not all developers were willing to participate. A small sample size of fifteen remained even after additional recommendations had been given by developers during the course of their interviews. Due to the small sample size, statistical procedures did not appear to be the best technique for analysis. As a result, the analysis of findings is largely qualitative.

Assumptions

One assumption of this study is that the developers interviewed are primarily active in commercial rather than residential development. Four had been in single-family residential construction at one time.

However, they are currently more interested in doing commercial development.

A second assumption deals with limited development experience. Some interviewees had completed only one or two projects, and another is working on his first. This study assumes that these developers had enough experience to be credible sources for this research.

CHAPTER III

REPORT OF FINDINGS: INTERVIEWS WITH KNOXVILLE'S
COMMERCIAL REAL ESTATE DEVELOPERS

This chapter will reveal information obtained from interviews with fifteen of Knoxville's commercial real estate developers. It will describe their background, education, and work experience. The developers' procedures for acquiring capital and developing "connections" are also presented. The chapter concludes with a discussion on the developers' personality traits.

Background

Sex

All fifteen developers interviewed were men. Currently, there are not any women commercial real estate developers active in Knoxville.

Age

The fifteen developers' ages ranged from twenty-seven to seventy-one with an average of forty-six (see Table 1, Appendix B). The youngest developer is expecting a financial commitment for a redevelopment of substantial size. This project will involve a city block. It will include 200,000 square feet of apartments and 50,000 square feet of retail space. This is his first project. The experienced developer of seventy-one years has an established "track record." His projects include several commercial "strip centers," subdivisions, and two regional malls.

The interviewees initiated their real estate development careers at different ages. One developer began his as early as twenty-three, and another as late as forty-nine. The average beginning age was thirty-two. One developer explained, "It's [age] a kind of discrimination, but you have to be thirty years old before anyone will even listen to you." The twenty-three year old acquired his early start in development by chance. While in college, his employer "loaned" him to a public agency in Knoxville. This agency was active in downtown redevelopment. He learned the public side of real estate development through site assembly and urban renewal. For example, he helped assemble parcels for the 1982 World's Fair Site in Knoxville. Eventually, he realized that the public sector was the "stimulator of private development." His substantial experience with the city enabled him to pursue a career in private development at an early age.

The other began his development career at forty-nine. He did not have any prior experience in real estate development. He spent the last thirteen years as a public school principal. A developer asked him to join his company. They were mere acquaintances. So far, in his fifteen month development career, he has completed three commercial strip centers totalling 500,000 square feet.

Number of Years as a Practicing Developer

The number of years as a practicing developer ranged from one to forty-one with an average of fifteen (see Table 1, Appendix B). The

developer practicing for only a year is also the youngest. The oldest developer is the one who has been practicing for forty-one years. However, most of the developers participate in a variety of real estate activities besides development. These include brokerage, leasing, property management, and/or appraisal. They tend to be "jacks-of-all-trades." For example, one individual has been a practicing developer for ten years, but active in brokerage and property management for seven. This is a total of seventeen years in the real estate business.

There are not many "pure developers" in Knoxville. One respondent claimed, "To have really big developers, the city has to have the ability to create big projects which Knoxville doesn't have the growth to encourage." After the 1982 World's Fair, and the failure of the United American Bank in 1983, the city has had slow growth and development. Prior to this time, the city experienced "a boom" in development activity.

Origin of Development Career

The majority of the interviewees started developing in Knoxville. Only one of the fifteen developers began his career elsewhere. He worked in Chattanooga for three years before moving to Knoxville.

Of the fourteen who started in Knoxville, seven were natives (see Table 1, Appendix B). Six of these natives had never lived anywhere else. They are the older established developers of the community. Those who are not natives have resided in Knoxville anywhere from eight to thirty-three years. Four of the seven came from Arkansas, Florida,

or Alabama. The other three came from different cities in Tennessee. These include Jackson, Nashville, or Donaldson. All three of these in-state developers came to Knoxville to attend the University of Tennessee. After completing college, they decided to stay here.

Family Background

The interviewees were asked if their family had ever been involved in real estate development or a related area. In nine of the fifteen cases, family members were not active in this business (see Table 1, Appendix B). Some had been farmers or manufacturers. Many did not comment on the work history of their family.

On the other hand, two of the fifteen developers came from families involved in real estate development. One respondent said his father was a "quasi-developer" because he developed part-time. He owned several parcels of land which he sold or developed. The other developer had a father and grandfather active in development and construction.

Four developers came from development related backgrounds. Three of the four had fathers in single-family residential construction. One came from a family of "brick-layers." He was the fourth generation to learn this trade. The other developer's father was in real estate brokerage and appraisal.

Family Influence

The six developers who had family either in development or a related area were asked if their family influenced them to pursue a

development career. Three of the respondents said "no" (see Table 1, Appendix B). They came from a construction background. They said their family persuaded them to pursue a career in construction, but not development.

The other three said their family did inspire them. Two of these developers had family in real estate development. The one respondent said developing "is almost hereditary" in his family. His father and two brothers are currently active in other states. Another developer said his father was very influential. He persuaded him to work in his brokerage and appraisal business. These real estate activities eventually led to development projects.

Role Models

Six of the fifteen developers had a family background in real estate development or a related area. Only three said their fathers and/or grandfather influenced them to pursue a development career. Did these family members serve as role models? Five of the six said "no." Although their family was a source of influence, they did not serve as a role model. Several said their fathers were not knowledgeable about real estate even though some were in construction. Only one developer had a role model. His father was in brokerage and appraisal and had been teaching him since high school (see Table 1, Appendix B).

What about the developers who did not have family in real estate development or a related area? Did they have a role model? Six of the nine did not. However, two of these developers are currently serving as a role model for their sons and/or grandsons.

The other three developers claimed they did have a role model. One said the "whole business community" was his. He learned by studying the influential leaders in the community. Another developer said travelling provided his role model. He claimed, "Travelling around the country and seeing and reading about quality developers provides a situation in which they act as a role model for you." The third developer learned from the President of the development company where he is currently employed. He did not have any prior work experience in real estate development. He had been a public school principal.

Acquiring Interest in Real Estate Development

If their family's background was not in real estate development, then how did the developers acquire their interest for entering the field? Five of the developers had at one time constructed single-family homes. One was a farmer, but eventually began building farmhouses. He explained, "It [his development career] just snowballed from there." His activities "snowballed" until he ultimately developed two regional malls. Another developer said his interest "mushroomed from the home building business." He realized the developer was making more money with less effort than the builder. Another developer who grew up in construction said, "I guess development is a natural extension of a construction background."

Three developers said they became interested in development by working in real estate sales. For example, one respondent had been

selling life insurance. One day he sold a policy to a real estate broker. He felt it was more worthwhile to sell homes than insurance. He believed people needed homes more than a policy. Since then, he has developed four million square feet of shopping centers.

Another interviewee had been working for a developer as his accountant. They eventually began working on a development deal. In his words, "It [development] intrigued me. It's a lot more fun to create the numbers than just report on the numbers. In other words, to be part of the creative process of putting the deal together and making it work."

Another respondent did not have any experience in real estate development. However, he had capital. As a result, developers brought projects to him. Eventually, he developed his own projects.

Another developer entered for this reason: "I think most people just think they can build a better mousetrap. So, I thought that I could. So far, I have."

Intentional Career Choice?

Regardless of how they became interested, most of the developers never intended to pursue this career. Thirteen of the fifteen said they never intended to become a developer (see Table 1, Appendix B). However, some did intentionally go into other real estate activities such as sales.

Two of the interviewees did choose to become developers. How did they prepare for a development career? The one developer took enough

college courses to obtain a broker's license. His seven years in brokerage prepared him to develop. The other worked in public development during college. He liked his work. As a result, he switched his course of study from law to real estate.

Although these two are the only ones who made a conscious decision to prepare for a development career, ten other developers believed preparation was possible. All twelve developers were asked to recommend possible preparation (see Table 1, Appendix B). Very few offered the same advice. One mentioned preparation through school in finance. Another recommended specialty courses through professional organizations such as the Realtor's National Marketing Institute. They are "thorough, intense, and quick." Three others thought working in sales, leasing, or mortgage banking was good preparation. However, seven of the ten developers said a combination of school and work experience was best. For example, one developer said preparation requires a knowledge of real estate which is gained through school, and construction which is gained through experience. He explained: "Many people in the development business don't have a knowledge of either of those things [real estate and construction]. Many wake up one day and decide that they are going to develop real estate and they are not prepared to do so and those are the people who get into this business and go bankrupt and don't make it."

On the other hand, two developers said preparation was impossible. One said those who prepare end up as employees of the developer. The other thought real estate development had too many variables to learn.

Therefore, preparation was "out of the question." One developer said he could not answer the question. He was not sure preparation was possible.

Education

Bachelor's Degree

Knoxville's commercial real estate developers are well-educated. In eleven of the fifteen cases the developer received a bachelor's degree. Of the four developers who did not obtain a degree, three had entered college. All three left after completing one to three years. The explanation given by two of the developers was that they "just lost interest." The third developer attended real estate classes for only one year. He did this solely to obtain a broker's license. Of the developers who received, or attempted a bachelor's degree, only three did not attend the University of Tennessee at Knoxville. Instead, they went to Arkansas State, The University of Alabama, or Vanderbilt University (see Table 2, Appendix B).

Regardless of the college attended, the fifteen developers had a variety of educational backgrounds. The majority did not pursue a degree associated with real estate development. Instead, the major course of study was agricultural education, biology, philosophy, political science, or history in six of the eleven cases. Those developers that did choose to study areas related to real estate development selected finance, accounting, or real estate (see Table 2, Appendix B).

The most common major was real estate. It was chosen by three of the eleven developers. Second to real estate was history. Two of the eleven interviewees pursued this area.

Advanced Degrees: Master's, Law, and Ph.D.

Upon completion of their bachelor's degrees, very few continued their education. None pursued a Ph.D. However, in four of the eleven cases, the developer attempted a master's or law degree. Of these four, only two finished. Both attended the University of Tennessee at Knoxville, but received different master's. The one developer obtained a Master's in Educational Administration while the other completed a Master's in Business Administration concentrating in finance (see Table 2, Appendix B). This developer pursued a law degree for two years, however, he became more interested in finance. As a result, he switched programs. These two developers had received undergraduate degrees in biology and political science respectively.

The two developers who did not finish their advanced degrees had similar reasons. One had attended law school at the University of Alabama for two years. He eventually lost interest in the program and went to work selling life insurance. The other developer was working on his Master's in Planning at the University of Tennessee at Knoxville. During this time, however, he was also assisting his father who was active in a variety of real estate activities. Real estate had always been his intended career and he left school to pursue it.

Opinions on the Benefits of an Advanced Degree

The fifteen developers had different opinions on the benefits of an advanced degree (see Table 2, Appendix B). Ten developers believed acquiring work experience in development was more worthwhile than the pursuit of a master's or law degree. Several agreed with this developer's statement: "You can learn certain things in school, and then, quite frankly, you got to unlearn a lot of them." His justification for this comment was "practical experience is the best teacher."

On the other hand, five of the developers thought an advanced degree would be useful. Their explanations varied. If the degree was in real estate or accounting, two of the respondents thought advanced study would be beneficial. The other three developers did not specify a subject area. Instead, they commented on the general benefits of any advanced degree. One developer said it would be useful when a student was job-hunting. He said he "would tend to favor someone with a master's degree over another person with only a bachelor's." Another said graduate school would tend to be more project oriented than "written learning." This is important because according to him, "That's how life is, more project oriented." The third developer claimed that one has to "stick with it" to be a developer. It is a career that requires persistence. In his opinion, the completion of an advanced degree proves this capability.

What about the two developers who did complete an advanced degree? How beneficial did their master's prove to be in a development career?

Both agreed that work experience in development would have been more useful than their master's. The one developer said it helped him acquire a development job, but afterwards it did not serve much purpose. The other said knowledge of development has to be gained through experience. He further remarked, "The university is all book knowledge." Upon elaboration, he said classes tend to be all theory.

Comments on a Master's in Real Estate Development

The developers were then asked for their opinion on the benefits of a Master's in Real Estate Development. Currently, this program is not available at any college in Tennessee. In fact, it is not offered at any university in the Southeast. The Massachusetts Institute of Technology originated this degree in 1984. In 1985, Columbia University and Texas A & M announced plans for similar programs. In addition, other universities are considering developing real estate development degrees at the master's level. These programs tend to include coursework in finance, accounting, architecture, and law (University of Tennessee, Knoxville, pp. 2-3).

How did the developers react to an advanced degree that would teach real estate development? Did their opinions on advanced degrees change? The responses were somewhat different. The developers appeared slightly more favorable of an advanced degree in real estate development. Three of the fifteen thought this degree would be worthwhile provided all aspects of real estate development could be taught. This would include

courses in architecture, site design, real estate, finance, engineering, and construction. Five of the fifteen developers were hesitant. They did not believe a master's program could encompass all facets of real estate development. Two others said the degree would provide an adequate "base of referral." However, it could not possibly prepare a student to "go right out and develop." Five of the respondents thought it still would not be as advantageous as work experience. The developers' reasons were that real estate development cannot be learned in school. Instead, it is learned through experience and "the school of hard knocks." One developer commented, "You really don't know that much about development until you're in it. The bad part is you get your teeth kicked in and you learn. That's not the right way to do it, but that's unfortunately the way it happens." Another said, "I do not know of any school that you can go to to learn how to be a circus operator, nor do I know of any school you can go to to learn how to be a real estate developer. It's very much an entrepreneurial type of business, it's a judgment type of business, and it's a timing business." Furthermore, another interviewee said, "Many times a good site and a good location is something you feel more than something you can study to know."

Useful Subject Areas for Developers

The interviewees were asked what subject areas were most useful for real estate developers. Each one had a different opinion. Some respondents mentioned only one area, whereas others recommended as many as three. Thirteen different subject areas were specified (see Table 2, Appendix B).

The areas of real estate and finance were both cited as the most useful by five of the fifteen developers. These courses would cover basic principles such as Internal Rate of Return, present value, amortization, etc. These recommendations came primarily from the four developers who had received degrees in real estate or finance.

The second most frequently reported subject was accounting. This was mentioned by four of the fifteen developers. One respondent felt accounting was more important than real estate. He stressed that development was "a numbers game."

Two others with liberal arts backgrounds said their "well-rounded" education proved helpful in their development careers. The variety of coursework enabled them to become skillful negotiators. They said relating with people is key in the real estate business. Another developer, with a non-real-estate or finance background emphasized the need for a negotiation skills course. He said it is "important to learn how to give and take" in a bargaining session. The developer has to be able to "cut a deal," yet he cannot take a hard attitude.

Another developer with a real estate background stressed design, engineering, and construction coursework in addition to a broad knowledge of real estate. The respondent explained:

The most unobserved voids in the development business is people that get into the development business thinking that they do not need a knowledge of design, a knowledge of engineering, and a knowledge of construction. Most developers out in the market place don't have any knowledge of these and therefore depend on people they hire to tell them what they should or should not do in these three areas.

When they hire someone, they're not often motivated or attuned to what ultimately you want to achieve. This is where a lot of developers fall short. They don't know they're falling short until it's too late and then they say, that's not what I had in mind.

Another respondent commented on the importance of legal and financial expertise. The development business has grown extremely complex with respect to liability, lawsuits, and constantly changing tax laws. Finally, other subjects recommended were planning, ethics, mathematics, and business management.

Change Anything?

The developers were asked if there were subjects they regretted not taking while in school. Was there anything about their educational background they would have liked to change? Twelve of the fifteen said "no." They said their educational backgrounds could not have been improved. They were satisfied with their chosen majors and level of education obtained. This includes two developers who did not finish college, and two developers who did not complete advanced degrees. Two respondents mentioned that they either take courses or attend seminars if the need arises. They also thought reading would more than compensate for areas they were lacking in. One commented, "I can improve myself by reading books on a particular development subject." He also used "self-study" to learn law.

However, one developer who attended college for one year admitted he would have liked to change his educational background. If he would have known he was going to become a developer, he would have obtained a

degree in accounting. Another also said he wished he had taken some basic accounting even though his degree was in finance. He was especially interested in the areas of tax credits and tax shelters.

How Education Proved Useful in Development Career

Although many of the developers disagreed on the merits of a "formal education," the majority said it has "come in handy" sometime during their development career. Nine of the fifteen cited occasions when their education proved useful (see Table 2, Appendix B).

One developer studied agricultural education. He said "carving up land for farms" helped him to visualize building sites. It enabled him to do site planning and design. Another developer with a finance background said his campus activities and politics were more beneficial than his coursework. His outside interests taught him negotiation skills which he uses every day as a real estate developer. His business courses were out of date upon leaving school. Another said his educational background was also useful for negotiating. His liberal arts degree proved useful in people relations. His ability to relate well with others led to a career in property management which served as a "spring board" to development activities. Another respondent said his experience in planning school enabled him to "obtain a feel" for how the public sector operates. He thought graduate coursework in this area, combined with his real estate undergraduate degree, provided him with the advantage of being knowledgeable of both the public and private sectors. He knew what to expect when he developed a project. Another developer with a background in history said, "One thing I learned

through history courses is certain people leave their mark and certain people make an impression. This had an impact on me." He decided to make an impression through a career in real estate development.

The four other respondents said their education allowed them to obtain broker's licenses, acquire a job with a developer, or kept them from having to hire someone with the expertise they were lacking.

What about the developers who claimed their education did not have an impact on their development careers? Six of the fifteen respondents said this. Three of the six developers did not complete a college degree. However, the other three did have degrees. These three developers had similar complaints about their education. They said a formal education is "too theory oriented." It does not apply to the "real world." One respondent explained, "It's hard to take that theory and put it into practical terms and use it in a practical way." Another said, "I feel like it was an advantage me not taking any business courses because I don't have any predetermined notions of what to expect." Furthermore, some of the developers believed a formal education prepared students to become employees of the developer, rather than developers themselves. One even remarked that education erodes the individual's ability to be a risk-taker.

Work Experience

Work Experience Prior to Becoming a Developer

The majority of the developers did not have a variety of work experience (see Table 3, Appendix B). Twelve of the fifteen had been

working in real estate development or related areas. These related activities included real estate sales, construction, accounting, mortgage brokerage, or appraisal. Five of the twelve were involved in real estate sales. Three of the five began by selling single-family homes. The other two started in commercial sales.

Three of the twelve were previously in construction. All three started by building single-family homes. However, one developer had worked in other areas prior to building single-family homes. He had eight years of work experience related to real estate development. After college, he worked at the State of Tennessee Property Management Division. He then became a real estate land acquisition officer for a national multifamily developer. Following this, he was a consultant for several development projects all over the United States. This developer had the most variety of work experience.

One developer had always worked in real estate development. During college he worked on downtown redevelopment. He then worked for a local developer doing apartments, office buildings, and office warehouses. After four years, he opened his own development business.

The other three developers had worked in the related areas of accounting, mortgage banking, and appraisal.

Three of the interviewees did not have any work experience in real estate development or a related area. One respondent was a public school principal. Prior to his thirteen years as a principal, he had an extensive career as a Captain in the Army. During this time he was involved in hospital administration. The other respondent spent twenty

years running a steel manufacturing company. The third interviewee has been active in cable television for four years. After college, he formed his own cable television company. Cable television is his "bread and butter" and first priority, but he does real estate development as a "part-time thing."

How Work Experience Proved Useful
in Development Career

The developers were asked if their prior work experience was useful in their development career. Fourteen of the fifteen said "yes" (see Table 3, Appendix B). Those developers with experience in real estate sales said it was extremely beneficial. One commented, "It gives you the idea of what land is worth, and how people develop it--the proper or improper way." Another said, "You learn the business and market place elements." Yet another commented, "I learned how to sell and put together a commercial real estate deal." The three developers in construction said their experience was useful in their development careers. One said, "Through construction you learn sales, market values, design, etc."

What about the developers whose work experience had not been in development or a related area? All three said their backgrounds were useful. The former school principal said his military experience has been especially beneficial. It has helped in negotiating. The steel manufacturer said his business constructed "building skeletons." This helped him learn the construction end of the development business.

However, he remarked, "Unfortunately, the building aspect is the incidental end. It's [development] a business of legal documents and selling yourself to get financing and leases." The developer in cable television said his experience has been useful. His business has allowed him to travel extensively in the northeastern United States. He has seen New York, Baltimore, and Georgetown. He studied renovation work in these cities. He has brought ideas back to Knoxville in attempts to revitalize the downtown. According to him, "People can't imagine it [renovation] until they see it."

What about the developer who said his work experience was not useful in his development career? What reason was given? He said, "I just didn't learn anything." He had been doing appraisal work for a bank. After two months, he went to work for a raw land syndicator. The syndicator owned several parcels of land, but his deals kept "falling through." A year later, the developer left to start his own development business.

"Ideal Type" of Work Experience

The interviewees were asked if there was an "ideal type" of work experience the aspiring developer should pursue. Every respondent had a recommendation (see Table 3, Appendix B). Eight of the fifteen said the ideal experience would be working for a developer. They had different opinions, however, as to what size operation would be best. Some believed working for a small developer would be best. One explained, "There is opportunity with any developer you go with, but with a smaller

developer you can grow." Another recommended working for a large developer. He explained:

By big, I mean no one in Knoxville fits this description. There's so many facets to development that you have to work for someone with a proven track record with different types of developments going on simultaneously. Therefore, you see how everything interrelates on a large scale which you can apply to a small scale. Applying small scale experience to a large scale is a narrow approach.

Another developer said size does not matter. He said, "Working for any developer, you'll learn everything from maintenance, leasing, and property management to development. In other words, you'll be getting in the ditches as well as sitting in the executive offices." Another developer had a different opinion. He said, "Size is a function of deep pockets--the availability of cash. In a large development firm, you're so far out on the ladder all you are is an employee. You want to go with a medium size firm that's not so small that they're not financially backed."

The recommendation to work for a developer, whether large or small, came from developers who had different work backgrounds. Four of the eight were developers who entered the field through real estate sales. Two were developers who had entered through construction of single-family homes. The other two were an accountant, or a public school principal.

Although the majority of the respondents thought working for a developer was best, they also said this would be difficult. One developer said, "Few [developers] offer an apprenticeship program to enable you to learn the ropes." Others remarked that "one would have to

be lucky" to get a job with a developer. It would require the aspiring developer to "sell himself" and his abilities. This would include preparation of a resume and "selling it door-to-door."

The second most recommended ideal work experience was real estate sales. This was mentioned by three of the fifteen developers. Commercial or single-family sales would be good. Sales enables one to see how a deal is packaged, and who is buying and selling. Furthermore, one can "learn to analyze potentials and weaknesses of different types of deals coming in." Two of these developers said sales experience should be combined with a knowledge of leasing. Leasing is key to a successful development. According to one developer, "The most beautiful building in the world is the one that's sold or leased."

The three developers who recommended sales had different work experiences. One had been a mortgage loan officer, and another was in cable television. However, the third developer's work experience had been in development. He recommended sales rather than working for a developer. His reason: "It's [real estate development] really a tough business to break into. There's not a standard route of entry as there is for someone like an accountant. I was fortunate."

Other ideal work experience mentioned by four developers include mortgage banking, construction, sales or working for a developer, or doing both. The developer suggesting mortgage banking said it would enable the individual to study different projects and their costs. One developer recommended getting started in development through construction of single-family homes. Eventually one could work their way up to

more advanced projects. Another developer disagreed, "If you start out constructing single-family homes you're going to be sixty years old before you become a developer. If you went to work for a developer you'd get enough exposure to construction to help you."

Self-Employment

The developers were asked about their experiences being self-employed. All the developers except one work for themselves. He works for the President of the company who is also a developer (see Table 3, Appendix B).

Ten of the fourteen developers were first self-employed in areas other than development. Four of the ten were operating as brokers in real estate sales. The other six were operating businesses in cable television, steel manufacturing, accounting, construction, mortgage brokerage, or farm implements.

On the other hand, four of the fourteen developers were first in business for themselves when they began their development careers.

Two of the developers became self-employed by taking over their fathers' businesses. They were in steel and real estate brokerage.

Regardless of the type of business, all fourteen began working for themselves in Knoxville. Their ages ranged from twenty-three to thirty-four. The youngest began his own cable television company after college. The thirty-four-year-old became self-employed when he became a developer. The average age of becoming self-employed for the fourteen respondents was twenty-eight.

Reason for Self-Employment

What influenced the fourteen developers to work for themselves? Several reasons were mentioned, and some developers gave two answers (see Table 3, Appendix B). The most common response given by six of the fourteen was "money." One commented, "I realized I would never have anything but a paycheck. I felt I was wasting time in my family's future."

The second most common responses were "freedom" and "independence." These two answers were each given by three respondents. Freedom is "the ability to do whatever, keep your own hours, and do your own thing." Independence is not having to be an employee. One developer commented, "I can't be an employee. I'm a free spirit I guess. I like to push my own buttons." Another respondent said, "There's really no business reason [for being self-employed] it's just an instinctive thing. I'm not cut out to be an employee. I didn't operate well in an employer/employee environment. I guess I'm too stubborn."

Other reasons for self-employment include sole decision-making authority, entrepreneurial spirit, co-workers were not as motivated, or "no one would hire me." Although the question was not asked, a few of the developers mentioned that they had been fired from jobs. One remarked, "No one else would hire me, every job I had I was fired. It was not a process of choice through which I became self-employed."

Was it possible that being self-employed was a goal these fourteen individuals set? Did they ever think they would be working for

themselves? Only one of the fourteen said it was a goal he always had. Back in high school he wanted the challenge of "being his own boss." However, he did not plan in any way to realize this goal. Another developer said working for himself was never a goal, but he knew he would be self-employed. He had always been "independent and self-reliant."

Self-Employment: Advantages

Some of the factors mentioned above that influenced the interviewees to work for themselves were also cited as the advantages of self-employment. The most important advantage reported by eight of the fourteen developers was "freedom." Freedom, the ability "to do your own thing" was discussed above. However, there was one advantage that was not mentioned as a factor influencing the decision to become self-employed. Given by four of the fourteen interviewees, it was the second most common response. The advantage was "the challenge" of working for yourself. According to these individuals: "It's a creative outlet, it's fun, and it's a game." The other advantages mentioned were independence, financial rewards, sole decision-making authority, and not worrying about being fired.

Self-Employment: Disadvantages

What disadvantages did the fourteen respondents encounter being self-employed? The major complaint by eight of the fourteen was the "insecure environment." The financial insecurities include irregular

income streams, a heavy debt load, bankruptcy, answering to the banks, and never knowing from one day to the next what you will be doing to earn a living. Not receiving a monthly paycheck was repeatedly mentioned. One developer commented, "I've gone as long as fifteen to eighteen months without a paycheck. At times I could have made more money working for someone else." The social insecurities include irregular work schedules resulting in strained family relationships. One developer remarked, "It's hard to raise a family. When you're into a deal, you just can't walk away from the negotiating table to come home for dinner. I mean you can, but you're not going to stay in business for very long."

The second most frequently reported disadvantage was "pressure and stress." Three of the fourteen had this complaint. Another developer said his major problem was travel. He spends two weeks a month "on the road." Another said he does not have anyone to sit down and discuss business problems with. As a result, he "gets up at one and two in the morning to worry about them himself." Yet another developer had a different opinion. He simply remarked: "There are many [disadvantages] obviously, or everyone would be self-employed."

Work Experience as a Developer: First Project

The developers began their careers with different types of projects. Six of the fifteen started with an office building. Four began with a small shopping center, and four others started in residential. They developed single-family homes. One developer is working on a mixed use development for his first project (see Table 3, Appendix B).

The developers chose office buildings for different reasons. One chose offices because of a study. The Real Estate Research Corporation did a feasibility analysis for Knoxville. It reported a latent demand for office space, especially outside the central business district. Armed with the study, the developer went to the bank. He was able to secure financing for his first project. The office complex totalled 70,000 square feet. Another office developer said, "There wasn't a number of quality office buildings in Knoxville. They lacked adequate parking, landscaping, and longevity." This is why he developed offices for his first project.

Four of the developers began with small shopping centers or what they refer to as "strip centers." One developer was inspired to develop strip centers. While negotiating his first deal with a tenant, he was called "an incompetent who would never do a shopping center in his life and needs to get out of the business." Eight years later, he has completed fifteen strip centers totalling 800,000 square feet. Another developer works for a company that specializes in strip centers. This is why he developed a strip center for his first project.

Others chose single-family homes for their first project. One developer wanted to "minimize his financial exposure to unknown market conditions." Single-family was less risky financially. He developed over 1,000 residential lots. Another began by developing subdivisions because there was a huge demand. He said, "There were more buyers for the working class and more resale for houses and the government backed

them financially." According to him, "Creating subdivisions for working peoples' houses is the backbone of the real estate business."

One respondent said developers used to "start out" building single-family homes. They were simple and small scale. He believes very few start out this way anymore. He thought a multifamily development would be a good project to start with. They are more complex. One would have to deal with tenants, property management, and develop a pro forma for lending institutions. He said, "Multifamily embodies more of the elements of development than single-family does." However, three developers still believe single-family would be a good "beginners project" because of the simplicity.

Eleven of the fifteen said the first-time developer should begin with any type of project. One advised, "There's all kinds of developers. It just depends on your interests."

Diversification of Project Type

Although the developers started in one area, some have chosen to diversify. Nine of the fifteen have worked on different types of projects. Some have worked in two areas such as office and strip centers. Others have done a variety including residential, industrial, and commercial (see Table 3, Appendix B).

What makes the developer interested in pursuing other areas? Each had a different reason. One said, "Anything to make a dollar." Another said, "I do all types because one type augments the other." This developer is working on a multiuse project which includes retail, office, and

residential. He is also planning a multifamily security community. Another developer diversified because he likes the challenge of entering new areas. His projects include 1,000 residential lots, 3,000 apartments, over 100,000 square feet of industrial buildings, two office towers, and a hotel. Another said he will develop what he feels the city needs. He is active in downtown revitalization and is currently planning an \$18 million redevelopment.

Two of these nine developers said they will no longer diversify. One developed a strip center. He said from now on he will "pick one area and stick with it." He further commented, "I am now an old dog who you cannot teach new tricks." His advice, "Learn to be the best and you will have a profitable niche." He is concentrating on industrial development. He has a 118 acre industrial park with more than 400,000 square feet of industrial buildings already developed. The other developer said, "I once got in the residential business and it cost me about \$100,000. Which means I would never do it again. So much for getting out of your own league." He attributed his oversight to inexperience and placing someone else in charge of the project.

Six of the developers prefer to concentrate on one type of project. Four of the six develop offices. The other two do strip centers. They do not diversify. They believe in "sticking with what you know and do well." All six developers gave this reason for not diversifying. One explained that risk is minimized. Another commented, "The mistake is when they [developers] get out of their field and do something else. They should've stayed with what they knew best." At one time, however,

one of these developers was tempted to diversify. He says he is glad he did not. Every project he considered "eventually went bad." Another said he is researching the possibilities of diversifying. He is currently developing strip centers, but is looking into apartments, condominiums, and hotels.

Preferred Project Type

Eleven of the fifteen developers prefer developing a particular type of project. Even four of the developers who diversify have a preference. However, there was not a unanimous preference. Four developers favored office buildings, and four liked shopping centers. Three others preferred industrial (see Table 3, Appendix B).

Those who preferred office development said they were most knowledgeable in this area. One thought he could develop offices that were better than the existing stock. Another liked office development because of the tenants. They are "top-quality professionals." It is different from dealing with shopping center tenants who like to be "wined and dined." Another said he established a reputation for doing quality offices. As a result, he had other interested tenants wanting space.

The strip center developers preferred this type because they were most knowledgeable in this area. There has also been a retail expansion in the last five years. One said developing shopping centers was a result of contacts. After one successful project, the tenants wanted him to develop more. These tenants also notified others. Through "word

of mouth," he developed more business. He also liked shopping center development because it is quick "in and out." On average, conception to completion of the center is only one or two years. This makes shopping centers less risky because of short-term financing. It is also less expensive in materials and holding costs. In addition, it is a secure investment because a large percentage of the space is secured by tenants with good credit ratings. This produces a steady stream of income. He said office buildings have a lot of turnover. There are not any anchor tenants to provide a stable income. However, there is one disadvantage of shopping centers. He said tenants have long-term leases at fixed rates. Thus, rents cannot be immediately changed.

Three of the developers preferred either industrial parks, or mini-warehouses. The developer who builds mini-warehouses said it offers the "best return on your money." The other two like industrial buildings and/or parks. They are less management intensive and there is less tenant trouble. The tenants also have financial substance.

Four developers did not prefer a particular type of project. They "like to do anything."

Geographical Expansion of Projects

Although fourteen of the developers began in Knoxville, several choose to develop outside the city (see Table 3, Appendix B). Three of the fifteen are active elsewhere in Tennessee. These three develop strip centers or offices. They have projects in Maryville, Bristol, Memphis, or Nashville.

Three others also developed projects in other Tennessee cities. However, they also expanded into other states. Two developers went to Alabama. Both develop office space. The third has worked in Florida, Colorado, and Wisconsin. He calls himself a "residential, commercial, and industrial developer."

Three of the fifteen developers have become regional. They develop all over the Southeast. Two of them are strip center developers. The third has many different projects. They include apartments, office towers, hotels, and industrial buildings.

One strip center developer works only in North Carolina. He works for a development company in Knoxville that recently expanded.

On the other hand, five of the fifteen develop only in Knoxville. Four of these developers have done a variety of projects. For example, one has developed several strip centers and subdivisions. The other is strictly an office developer. So far, he has completed 80,000 square feet of office space.

Why did the developers choose to work in other cities and states? Most of the developers did not specify a reason. According to them "it just happened." Usually, they heard of an opportunity through conversations with contacts in other cities. The developers did projects in these cities if they believed there was a sufficient demand.

One of the office space developers has developed in Nashville, but he prefers to work in Knoxville. He said, "Nashville has so much development, they don't have time to establish a relationship with a new developer." In Knoxville, he "knows everyone in case problems arise."

He has developed a track record for doing quality work. Therefore, his projects go more smoothly.

One strip center developer explained why he went regional. He said, "We developed contacts by delivering for some large anchor tenants when they thought we couldn't. Once you do a good job, it's easy to do it for them again. Therefore, we found out where the tenants were going and did projects for them." Currently, he develops all over the Southeast. Eighty-five percent of his business is outside of Knoxville. Some cities include Columbia, South Carolina, Birmingham, Alabama, Richmond, Virginia, and Bowling Green, Kentucky. So far, he has developed nearly two million square feet of shopping centers.

Several Projects Versus One

The developers were asked if they prefer to work on one project at a time or several. Thirteen of the fifteen liked to work on several projects simultaneously. One regional developer said he has many projects, but someone is responsible for each. He explained, "Someone wakes up and goes to sleep with that [project] as their number one priority." Another developer said, "You keep score by the money you make. When it [project] starts making a little money you turn it over and let somebody else handle it, and then you get busy on another project." Another said he has to work on several projects. This is because most deals do not work. Therefore, he likes to have a backup. He said, "You have to have lots of different things in order to bring something home." Another developer agreed. He remarked, "A good project you might work

on for ten years before you finally pull it together." Another said he works on several projects because he has to keep busy. According to him, "I can't sit still for more than thirty minutes."

Two of the developers prefer to concentrate solely on one development project at a time. They like to take their time and do their work well. Both developers also prefer to develop industrial buildings and/or parks.

Financing

Obtaining Equity

How does the new developer obtain equity? The fifteen developers acquired equity in one of two ways. They either had money or they supplied "sweat equity" (see Table 4, Appendix B). Nine of the fifteen had financial resources when they began developing. Five of these nine had previously sold real estate. They received substantial commissions. One said he made six figure commissions. Four others owned a business prior to becoming a developer. Three of them maintained operation of their business while developing part-time. Therefore, they received a somewhat steady stream of income. Their business also served as collateral. The other was the successor of a profitable family business. He had "deep pockets."

Six of the fifteen developers furnished sweat equity. They provided ideas while someone else backed them financially. One developer calls this the O.P.M. (Other People's Money) Theory. He uses his energy with other peoples' money to make money. Another developer

also prefers this arrangement. He said, "It's just a good compatible relationship--they're the investor and I'm the developer."

Borrowing Capital

Regardless of the equity involved, the developers had to attract capital. Potential sources included partners, limited partnerships, financial institutions, joint ventures, and individual investors (see Table 4, Appendix B).

Partnerships

Six of the fifteen developers formed partnerships to develop their first project. What did they look for in a partner besides capital? Three of the six chose someone who was knowledgeable in an area that they were not. For example, one chose another developer. He did not have any previous experience in real estate development. Another chose a partner knowledgeable in tax accounting. Another selected a partner he worked well with. He said they also had common objectives and similar approaches. Two developers chose partners solely for their capital. One said, "You select someone with money irregardless [of other things]."

Did the developers choose friends or family members as their partners? Did they have a preference? Four of the six had chosen friends as partners. None chose family members. The majority preferred not to do business with family. One developer explained:

When your work day stops, the family wants to know everything that went on during the day and you're ready to take time off. If something goes wrong, you don't want to hear how you lost

their money the rest of your life. With a friend, you can sit down and explain the risks. You can tell him, you're investing this many dollars and you could lose. If you do, I don't want to hear about it. It's easier to give up a friend than a relative.

Only one of the six would consider having a partner who was family. Another said he would not choose either a friend or family member. His advice, "Never drag down a friend or family member with you. There's too many extraneous factors and inherent dangers in this business."

However, three of the six developers said they will never use a partner again. They had continued to work with partners after their first project. Partners tend to "go in different directions." One explained, "You cannot run this type of business by committee. It cannot be done. It must have a head. You have to have a boss." Another said his partner did not have a "clear-cut understanding of what they were doing, who was to do it, and in what time frame." He also said partnerships are dangerous because of the financial liabilities.

Six developers formed partnerships to develop their first project. However, there were four others who formed partnerships sometime during their development careers. They chose partners for different reasons. One selected a specialist in an area he was not familiar with. He explained, "You have to have help. The people that you bring in determines how successful a developer you're going to be." Another chose a partner with similar development goals. Two others chose partners with capital. One of these developers also looked for trust, compatibility, and someone who would "stick with him when things didn't look rosey." This is a trait which will be necessary in the long run.

On the other hand, five of the fifteen developers have never used partners and do not intend to. One remarked, "I don't believe in partners. It works well for some people, but the majority of partnerships tend to be less than five years in duration. People tend to grow in different directions." Another said, "It's difficult enough for there to be one captain at the helm, but when you try to have two, then as people have different opinions on how things should be done--that tends to spell the end to partnerships."

Limited Partnerships

Two of the developers secured capital through a limited partnership. One developer, for his first project, met with a financial planner. The planner represents investors. He arranged the limited partnership by matching the needs of the investors with the demands of the developer. The developer acquired capital, and retained sole decision-making authority over the project. Another developer is currently working on his first project. He is attempting to finance his redevelopment through a limited partnership with out-of-state investors. He learned about limited partnerships while operating his other business.

Financial Institutions

Six of the fifteen developers acquired capital from financial institutions for their first project. This required a lot of "door-knocking" and "selling of ideas." One developer obtained financing from

a bank because he had equity in the project. The equity was the land options. He said if there is enough equity in the project the institution will usually loan 75 to 80 percent of the total project cost. Another developer agreed. He said, "It is easier to borrow money from financial institutions when they see you're seriously involved and willing to invest your own money." He had his own business which provided funds for the land options. He then "created value." He optioned three acres for \$400,000. His move interested a speculator who purchased adjacent acreage. He bought two acres at \$500,000. All of a sudden, adjacent land values were being set higher than the developer's option. When the developer went to borrow money he put the land up for collateral. The property was then appraised. It was valued at \$600,000 whereas he only paid \$400,000. Thus, he had "paper equity" of \$200,000. The outcome could have gone the other way. The property could have been appraised at a lower value. He said, "That's where my gut feeling and luck came in handy."

Another said the key to getting capital was understanding the "rules of finance." He explained, "If you understand what lenders are looking for, you can overcome objections in the beginning. You can do things [projects] that meet with acceptance rather than running into brick walls." He learned the rules of finance by interacting with the lenders. He did this through contacts he had developed.

Another developer used his real estate sales commissions to purchase a land option. He then had a "lucky break" with a banker. The

banker wanted to promote growth in the area of the proposed project. As a result, he agreed to finance the developer's subdivision.

Another said the financial institutions are more concerned with the feasibility of the project. They study the project's location, need in the community, and tenant's credit ratings. If the project appears feasible, financing is available.

Joint Ventures

Only one developer acquired capital for his first project through a joint venture. He was in a joint venture with an insurance company. He said, "Through their [insurance company] own money or their credit you go to the bank and borrow the rest of the money you need." He participated in a joint venture because he could not find an investor. He explained, "I had to beg to borrow money and beg investors to invest with me. I finally found someone that was willing to gamble on me. I was fortunate."

Currently, more people are approaching the joint venture rather than the partnership for capital. One developer said this is because it reduces financial liability.

Individual Investors

None of the fifteen developers reported using individual investors to finance their first project. However, two developers emphasized the wealth potential of these sources. Common investors include

accountants, lawyers, and especially physicians. They not only have money to invest, but clients or peers who may want to invest.

Capital Formation: Difficult?

How difficult was it for the developers to attract capital? Was it difficult at all? Eight of the fifteen said "no." They did not believe securing financing for their first project was a problem (see Table 4, Appendix B). Three of them said difficulties depend on the project's feasibility. One remarked, "It is easy to finance a well-developed project." Another agreed, "If you have a good enough idea, it's economically feasible, and you can communicate the idea, then you will find the money." Another said it was easy to finance a project because bankers like developers. They will make more money with developers than most other customers.

Seven of the developers thought financing a project for the first time was difficult. What reasons were given? One said acquiring financing is even more difficult today than in the past. It takes more equity and capital because projects are larger. They also have higher construction costs, holding costs, and interest rates. Two others said financing was difficult because development projects take years to complete. It can be a "five to ten year haul." It takes a banker that understands this and is willing to work with the developer. Another developer agreed. He said development is a "very big dues paying business." One has to stay in it a long time before their project materializes. He further commented, "Everybody looks and says, oh, look at the development he did. What they don't realize is you worked five, ten

years ahead of that and there was no glory, no nothing, just a lot of sweat." Another said financing was difficult because project costs always run over, and there is never enough money. He remarked, "Lenders never let you have enough money and unless you have a deep pocket, or access to deep pockets--you find nothing but trouble." Another said it was real tough. He explained, "The guys who have the imagination and foresight to develop, and the guts to carry through and put up with all the crap that you got to put up with to make something happen, typically do not have the capital. If you got the capital you're not going to put up with it [the development business]."

Currently, obtaining financing is especially difficult in Knoxville. This is due to the failure of the United American Bank in February 1983. One developer explained, "When United American Bank folded the other banks became so paranoid, and the bank examiners became paranoid, and it's now impossible to do business. We are starving for a good bank in Knoxville." The bank failures caused a conservative lending attitude by Knoxville's banks. The bank failures also damaged the credibility and reputation of some of Knoxville's developers. This is because they were "caught up" in the bank failures. They had projects financed by the United American Bank. This made it difficult to seek additional financing from other cities' banks. The developers were hesitant to disclose their experiences with respect to the bank failures. However, one developer claimed, "The experience I've gained out of Knoxville in the last ten years you won't get in another city. Those few of us developers still here sure as heck know what to do. We've

been through it all. The guys in Houston have yet to meet the F.D.I.C.."

Capital Formation: When and How Does It Become Easier?

Eight of the developers thought financing was not difficult. Seven others thought it was. However, they agreed the process becomes easier. When and how? All fifteen developers said the key was a credible reputation established through a successful track record. One developer explained, "Once you have done a project and established yourself with doing good work and paying your bills, people can trust you. From that point on, borrowing money becomes considerably easier than the first time. Each project you do is just another star that a banker may put down beside your name."

Another developer said financing is somewhat easier after the first project. Most financial institutions will tell the new developer to "come back after he has done something." This is because many developers fail with their first project. He further explained, "The majority of developers develop once. They have misconceptions about profit structures, about what they're going to make, about the complexity of what they're doing, and they simply get into it, they fail, and they go back to work for someone else." After one project, the new developer has equity and the banks are more amiable to financing additional projects.

Besides a track record, one developer said financing will become easier if the new developer has two additional traits. These are

aggressiveness and a "sales personality." A sales personality is someone who can "sell snowballs to eskimos."

When is a successful track record established? Is it after a number of years in the business? Is it after a particular number of projects? The developers did not have an answer. They could not pinpoint a time frame. Different people will perceive a track record differently. Some will immediately like a project. An example of this would be a quality office building that quickly fills to capacity. Other projects' success will take longer to determine. A shopping center may take two or three years to prove that it will be successfully supported by the population. Therefore, it will take longer for a track record to materialize.

Another developer thought two or three successful projects would establish a track record. It all depends on the project. He said, "If you did Trump Tower right off the bat, I'd say you'd get a loan somewhere."

Track records are also subject to change. One developer said, "For a lot of them, it's [track record] a rollercoaster. They're very successful one year and then they're broke the next year."

"Connections"

Important Connections

What connections are the most useful for a real estate developer? The most common response given by six of the fifteen developers was "financial contacts" (see Table 5, Appendix B). These include bankers, lenders, and other sources of capital. One developer said lenders from

a financial institution such as a savings and loan are extremely beneficial contacts. Through interaction with them, one learns what the lenders look for in a development project.

Three of the fifteen respondents thought political connections were the most useful. They can often influence zoning cases. One claimed:

"You don't get zonings done unless you get your finger in politics, unfortunately. It's [zoning] not done on reason or rhyme, it's done on the population that comes out of the neighborhoods and everybody in the neighborhood is always opposed to change. They buy their house and they want to control everything they see or everything they drive by to and from that house. If you listen to the homeowners all the time you'd never have anything zoned."

Zoning is the action where the conflicts of a development project arise. The developers encounter public opposition and sometimes lose money. Many developers lost money on their land options while attempting a rezoning.

Two other developers said tenants were beneficial contacts. Satisfied tenants through "word of mouth" create referral business. For example, one developer creates strip centers. His success with anchor tenants such as Winn Dixie and K-Mart lead to future business. Another developer builds office space. Tenant contacts are also important to him. He said that without the tenants, a developer can rarely obtain financing for the project.

The other developers had different opinions on what contacts were most useful. Two respondents said it depends on what area of development one is in. For example, a shopping center developer's most useful contacts would be anchor tenants. Tenants with triple-A credit ratings

make financial backing easier. If it is a speculative development, it would be more important for the developer to have financial contacts. Another said professional connections are the most beneficial. These include architects, contractors, and subcontractors. Another developer said all contacts are necessary--financial, political, professional, and legal. To him, none are more important than the others.

Developing Connections

Connections are of the utmost importance. Development is an "information sensitive" business. Therefore, how does the new developer establish contacts? The developers offered various advice, and some explained how they do it. One said the key to developing contacts is "occupational and social mobility." Another agreed, but he calls it "networking." He makes an influence on people by being extremely conscious of personal facts. He keeps a book with notes on each person with whom he does business. Notes include spouse's name, number of children, their names and ages, etc. This way he establishes a more personal relationship with his associates. Another developed financial contacts. He interacted with the lenders and got to know them. He made appointments with them and introduced himself. Eventually, he ran deals by them and established a reputation for professionalism. Another developer formed contacts by establishing a track record. He is known for quality projects. As a result, when he brings a project before the city council, they are familiar with his work. This diffuses a lot of rezoning arguments. One of the shopping center developers establishes

contacts by attending a deal-making forum. Twice a year, for one week, an International Council for Shopping Centers is held in different cities. Tenants and developers attend to negotiate potential deals. It is not a tradeshow. Actual business transactions take place. Another developer makes contacts by holding periodic luncheons for potential tenants. During these, he assesses indications of interest for office space. He has also made contacts through unplanned activities such as fishing or tennis. For example, during a recent tennis match with a physician friend, the "contact" said, "By the way, I know someone who is looking for a 4,500 square foot building." The developer might have a potential tenant. Another developer took a more direct approach in developing political connections. He convinced his partner to acquire a position on the planning commission. Another developer had a substantial number of political, professional, and financial contacts. However, he did not have to work at developing them. He has lived in Knoxville all his life. As a result, he has many contacts employed in different areas who were friends from high school or college.

However, it appears the most common way to develop contacts is to become active in the community and in charity work. One will meet many people with various occupations. Thirteen of the fifteen developers were involved in various activities (see Table 5, Appendix B). These activities were professional, community oriented, or church related. For example, one developer is on several Chamber of Commerce committees, and the county's tourist commission. Another was Chairman of the Planning Commission for four years and a member of the Society of Industrial

Realtors. Several of the developers also contribute funds to worthwhile causes.

Developing Connections: How Long Does It Take?

The developers agreed that a time frame cannot be specified for how long it takes to develop useful contacts. Two of the developers said it takes a long time. It is similar to developing relationships or friendships. It takes time to develop mutual trust. It also takes considerable time for the developer to establish a track record or reputation for quality and professionalism. However, developing contacts will take less time for some than others. It depends on personality. The new developer has to be aggressive. Another developer said a time period cannot be specified because the process never stops. Developing connections is an ongoing activity. One is constantly working at it even after regular business hours.

Developing connections involves a lot of time and effort. Is it difficult? Thirteen of the fifteen said it is relatively easy. However, two developers thought establishing contacts was difficult (see Table 5, Appendix B). They said it is a trial and error process. Some contacts lose credibility over time.

Personality Traits

Important Traits

What personality traits are characteristic of developers? Nineteen different personality traits were reported. Thirteen of the developers gave more than one answer (see Table 6, Appendix B).

The most common response was "perseverance." It was given by eight of the fifteen developers. Perseverance includes "hardheadedness" and a "never quit attitude." One respondent said, "What makes the difference between a developer and a [another] developer is staying power."

The second most common response was willingness to take risks. Seven of the fifteen developers gave this answer. One respondent said risk-taking is a universal quality. He explained, "Without risk-taking, you don't have a developer." Another respondent agreed. He remarked, "Don't get into the real estate business unless you have ice water that runs through your veins and don't ever panic in the face of disaster."

Two other personality traits were each mentioned by six developers. They include honesty or sincerity, and a strong ego. One respondent said honesty is especially important in problem situations. The developer must inform interested parties when problems arise. He can then show how he overcame the problems. Another said honesty becomes important over the long-run because it influences success or failure. Another believed the "common thread" among developers is ego, an ego larger than the "common person's." It is an inherent feeling of "creating something that is going to work" and that their efforts will be successful. Another developer had a different opinion. He said a strong ego is different from a large ego. A large ego can be destructive. It is when one's self-image gets so big it does not enable wise business decisions. On the other hand, a strong ego keeps one moving in the right direction. It enables one "to get up after he has been beat down."

Two other responses were each mentioned by four developers. They thought creativity or responsibility was a characteristic personality trait. One said the developer must feel gratification from the creative process. The other said the developer must always have creative ideas. He carries 3 x 5 cards in his pocket at all times. This enables him to write down ideas. Although at first they may appear ridiculous, they may evolve into a profitable venture. Responsibility is making a decision and accepting the consequences. It is "putting your name on the line." If the developer cannot accept responsibility for his actions, he better not develop the project.

Thirteen other personality traits were mentioned. Some of these include patience, a sales personality, negotiation skills, a desire to help others, instinct, and the ability to "make a good decision quickly." One developer thought patience was a virtue. He explained, "You don't get rich overnight."

What if the aspiring developer does not possess these personality traits? Can they be enhanced through education or work experience? Which is more likely? All fifteen developers thought they could be enhanced through experience. They are innate characteristics that could be cultivated in a work situation. Only two of the developers said they could be enhanced through school. However, these two thought only one of the desirable traits could be learned. This was negotiation skills.

Risk-Taking

According to one respondent, risk-taking is a universal quality of the developer. What are the risks in real estate development?

Financial Risks

The greatest risk reported by all fifteen developers was financial. It is a daily risk proportional to the size of the developer and the project type. Development is a "balancing act" between producers, lenders, and the market. Very few people perform it well. Therefore, bankruptcy is an everyday threat to the developer. It can easily wipe out every personal holding. One developer claimed, "The real estate development business will have more bankrupt people than any other business. Some developers will be bankrupt once, others twice."

Most financial problems arise because the developer does not receive "a healthy cash flow." His income stream varies daily. It is either "feast or famine." There is a considerable time lag before profit realization and the developer must be able to hold out financially. One said, "You're going to concentrate maybe six months, maybe a year before you really get any dollars generated." Another agreed. He said, "People think there's a lot of money in development, which there is about thirty percent profit in it over the long haul, but it takes so much time and capital."

Time delays usually result when the developer underestimates how long it takes to cut through bureaucratic and/or financial red tape. Therefore, there is a considerable time lag between raw land acquisition and construction. Most delays are due to rezonings. While waiting for approvals, interest rates may rise, construction costs may increase, and the "meter ticks away on the raw land debts." Five developers reported losing money on land options while waiting for rezoning approvals. Some

faced such fierce public opposition to their projects they did not develop. One claimed, "You can easily get up to \$500,000 sucked into a project and then have to walk away because of the opposition."

Time delays also result because "anything can go wrong." The developers claimed that problems arise with every project. Problems with leasing, soil type, geology, architects, or contractors were some given examples.

Another financial risk is making the wrong decisions. The developer can "miss his market" due to inaccurate feasibility studies. He ends up with a project that does not fit the needs of the community. Other developers made the mistake of "spreading themselves too thin." They had several projects going on simultaneously. It was more than they could handle. This is costly not only in dollars, but in "opportunity costs." Opportunity cost is time that could have been spent working on something else. Another developer trusted the wrong people. He ended up being shorted financially.

There are other financial risks the developer has even less control over. One example is the economy. One developer bought additional land for office development because he anticipated a healthy future market. The "market quit." He called it the "Economic Crunch of 1974." In 1979, the prime interest rate was 21 percent. Many developers suffered. They were not able to charge high enough rents to cover the high interest rate loans. One developer remarked, "The economic cycles can be

devastating and they always come at the wrong time. Everything goes full cycle, we'll be back to twenty-one percent prime someday." Another said, "If interest rates go back to twenty-one percent, it won't wipe me out, but it will stop me from working."

Two recent issues may also present a financial risk to the developers. These include the proposed Gramm-Rudman Budget Reduction Act and the 1986 Tax Reform Bill. However, the developers did not wish to comment on the effects it would have on them, or how they would respond to the proposed changes.

Secondary Risks

Financial risk is the greatest because it is all encompassing. It has a "spillover or domino effect" which causes secondary risks.

The most frequently reported secondary risk was divorce. Five of the fifteen developers mentioned this. Four others mentioned family problems. There is a tremendous strain on family life. There are time uncertainties due to business schedules. This results in sporadic hours. It is easy to become enthralled and overwhelmed with work. This takes the developer away from the dinner table, his children's activities, and out of town. There is also the impending threat of financial loss which affects the family's future security. One developer said, "Anytime you lose financially, you probably lose a friend and can easily lose family."

The third most common secondary risk was pressure and stress. Three developers said this. Two others mentioned health problems. One

said he has to pay special attention to his health. He takes walks, meditates, and watches his diet.

Four other risks were each mentioned by one developer. They include battered egos or lowered self-esteem, peer group embarrassment, fear of failure, and damaged reputation or credibility. After he loses everything, it is hard for the developer to recover. He loses credibility which limits what he can do.

Can Risk-Taking Be Learned?

What about the aspiring developer who is not a risk-taker? Can he learn risk-taking? All fifteen developers said "no." Three of the developers said risk-taking is innate. It is a quality that one is born with. One developer said if one is not born a risk-taker, he must acquire it at a very early age. Another said, "Most people are not brought up or oriented to take the risk developers do. They were raised in a paycheck type family." Another said risk-taking cannot be learned even though more colleges are offering courses to teach this.

Although the developers believed risk-taking "comes from within" and could not be taught, many said it became easier over time. Thirteen of the fifteen said this. It becomes easier because one learns from his mistakes. They believe "experience is the best teacher." The individual will find himself in similar circumstances which he can deal with better. He will learn to evaluate and analyze risk, and he will gain self-confidence. This will enable him to not give in to others' demands. He explained, "The risks I took five years ago I won't take

today. I don't have to. Back then you had to prove yourself so you had to take almost any deal that came along, even as risky as it was. Now I can pick and choose deals." Another learned to tolerate risk-taking. This is because "your financial situation is dictated by your willingness to take risks."

Two of the fifteen developers claimed risk-taking does not become easier over time. One said, "Risk-taking never becomes easier, however, your financial cushion becomes greater." Another said as he grew and accumulated wealth, his potential for loss increased. This made risk-taking even more difficult.

Although they are willing to take risks, all fifteen developers said they are "calculated risk-takers" and not "gamblers." One developer said, "The concept of gambling is not too attractive." Another believed gamblers are "the guys who go broke."

Motivation

With all the inherent risks, why is this career chosen? What motivates the developer? Eight of the respondents gave more than one answer.

Ten of the fifteen developers are motivated by "money." One said, "You won't find many entrepreneurs that don't have that [money] as their primary motivation." Another developer is motivated by financial rewards so he can "have what I want in life." Another wants to be profitable, yet not the biggest developer in Knoxville. Another said, "The bucks were being made by those people who were doing development

and buying land and doing something with it and then getting someone else to sell it." He had previously been selling real estate. Eventually, he realized "sales was a way you worked yourself to death only to earn a living." Another believed all developers are motivated by financial success. However, they take two different approaches. Some developers say they are motivated to do aesthetically pleasing, quality work. He said, "Their bottom line is doing quality work will bring me more money." Other developers use the second approach. He explained, "Their bottom line is the more I can cut out on a project, the more I save and can put in my pocket."

Four other sources of motivation were each reported by three developers. They include helping people, the need for achievement, the need for excitement and challenge, and the need for a creative outlet. One developer's motivation is "to treat people better." He does this through a "quality development niche." He provides quality at an affordable price. As a result, 90 percent of his business is referral from former customers. Two other developers are also motivated by helping others. One explained, "Money isn't happiness. Once you have the basic necessities for you and your family, what else can you do with it [money]?" Another said, "I never set out to make a million, that just comes from hard work." He retired at thirty-five because he was a millionaire. Six months later, he was "going crazy." He returned to work to develop what was needed in the community. Others liked the excitement and challenge real estate development offers. One explained, "It's like a puzzle or a chess game. There's never a dull moment." Others

liked the creative outlet. One remarked, "To stand beside a building and know how you brought that from a paper concept is very rewarding. It's not something that's going to go away very quickly." Another likes the satisfaction of "putting the parts together and coming up with a finished project."

Three other sources of motivation were each mentioned by one developer. They include egotism, the desire to keep busy, and the need to have an impact on society.

Is it possible the developers' motivations changed over time with experience? The majority, nine of the fifteen respondents, said "no." One developer, who is motivated by financial rewards explained, "I've always lived with a champagne taste, now I'm just in a better position to afford it."

However, six of the developers said their motivations did change over time. Two respondents said once they succeeded financially, they became more interested in helping the community. They wanted to put money back into the community "to leave things a little better than they found them." Two others said after their financial needs were met, development became more of a game. One explained, "When I got into development I was financially motivated. As my financial capacity increased, I enjoyed the excitement, challenge, and competition." Another developer said his motivations also changed over time. His development projects became more "grandiose."

Developer Stereotype

The developers had similar personality traits. They were risk-takers and highly motivated. Is it possible a stereotype of the developer exists?

Seven of the fifteen developers did not think a stereotype of the real estate developer exists. One respondent claimed that the media tries to "build up a prototype of a somewhat negative image" of the developer. He insists he is out to help the community. His current project will provide 250 jobs.

Four other respondents said developers are stereotyped. They had slightly different opinions on the stereotype. Two interviewees said the existing image is "someone with a big ego wanting to leave his mark." They both felt this description is accurate for some developers. Another believed the existing image of the developer was a "wheeler dealer." He thought this image was accurate. Another said, "Unfortunately, a stereotype of the developer does exist. He is the land rapist with the gold rings, cigars, and Cadillacs."

Two other developers said a stereotype of the developer did not exist, but "stereo-qualities" do. Developers have similar thinking and personality traits. These include persistence, drive, and willingness to take risks.

Another developer said there was no question of a stereotype. However, he felt the existing stereotype was changing. He explained, "It's changing because people like ourselves are making an effort to take development from raping the land to building fine developments beneficial to the community."

One of the respondents said a stereotype did exist at one time, but not anymore. Developers are becoming a "normal type of business person." He explained, "Developers are becoming far more sophisticated out of necessity because the more sophisticated ones are the ones willing to survive the economic cycles in real estate development. It used to be developers were the gold chain, open shirt, tight leather shoes guy." He believes developers used to endure a reputation next to the used car salesman "who is the lowest on the totem pole."

CHAPTER IV

SUMMARY AND CONCLUSION

Summary

The goal of this thesis was to research the commercial real estate developer. In pursuit of this goal, personal interviews were conducted with fifteen commercial real estate developers in Knoxville. The developers' background, education, work experience, financial sources, connections, and personality traits were identified.

Knoxville's commercial developers are "jacks-of-all-trades." Since the city is experiencing slow growth, the developers also work in property management, leasing, sales, and/or appraisal. They stay in Knoxville because they began their development careers here. On average, they have been in the business for fifteen years, beginning around age thirty-two.

They did not intentionally choose to become developers. They acquired interest in development by working in related areas such as construction or sales. Their families were not in development or a related area. Therefore, the majority were not influenced by their families to pursue a development career.

Knoxville's commercial developers are well-educated. Most of them completed a college degree at the University of Tennessee at Knoxville. The majority did not study real estate, finance, or accounting. Instead they pursued liberal arts degrees. Their education proved useful in

their development careers. It taught them how to relate to and negotiate with people.

The majority of the developers did not pursue an advanced degree. They were satisfied with their educational background including the level obtained and chosen course of study.

Knoxville's commercial developers did not have a variety of work experience prior to their development careers. The majority worked in related areas such as real estate sales or construction. Many became self-employed as brokers in real estate sales. However, they never thought they would be working for themselves. Self-employment was never a goal they set. They did it for financial rewards.

They began their development careers with different projects. They chose to develop in the area in which they were most knowledgeable. The majority started with office buildings. Eventually, many diversified. They began to develop different types of commercial projects. The primary reason they diversified was for financial rewards. The majority also develop outside of Knoxville. They have contacts in other cities which influence them to work elsewhere.

Knoxville's commercial developers thought financing their first project was not difficult. However, many of them had financial resources prior to developing. Several had real estate sales commissions which served as equity. An equity position in the project made acquiring capital easier. Most chose partners to obtain capital. Their partners were usually friends. They preferred not to do business with family members.

Attracting capital became easier when a track record was established. A successful track record depends on the type of project and the developer. Track records are also subject to change. Real estate development is a "rollover business" in which the developer can have alternating successes and failures.

Knoxville's commercial developers seek financial connections. They believe they are the most important. These include lenders and potential investors. They develop these contacts by participating in community activities, professional organizations, and/or church activities. It takes considerable time to develop contacts, but it is not a difficult process.

Knoxville's commercial developers thought a developer should possess certain personality traits. They reported nineteen characteristics they believed were important. These traits can be enhanced only through experience, and not school. The most important trait is perseverance. Perseverance is holding out financially and emotionally until a successful project is completed. The second most important quality a developer should have is a willingness to take risks. Unfortunately, risk-taking cannot be learned. It is an innate quality. However, it does become easier over time due to experience. The developer becomes familiar and more confident under similar circumstances.

The greatest risk in development is financial. The developer experiences irregular income streams and considerable time before profit realization. There are numerous things that can go wrong with a project causing time delays. The most frequent problem is zoning. Rezoning

cause public opposition and can cost the developer substantial time and money.

Most developers are willing to risk everything for financial rewards. It is their primary motivation. The majority believe their motivations have not, or will not change over time.

Conclusion

The above summary reports the opinions of the developers. Their opinions are biased, however, because their perspective is limited to their own experiences. This section of conclusions responds to the research questions. They are based on the results of personal interviews with fifteen of Knoxville's commercial real estate developers and extensive library research on the entrepreneur. Beyond this section are some additional conclusions and observations of a more tentative character.

The academic preparation most useful for a real estate developer is a college degree either in real estate and/or finance. Knowledge of the basic principles and terminology in both subjects is recommended. The author's opinion on these subject areas is consistent with the majority of the developers'.

The aspiring developer should continue his education by pursuing an advanced degree in a development related area such as finance, real estate, marketing, or accounting. An ideal degree would be a Master's in Real Estate Development. Unfortunately, few colleges offer such programs. The author's opinion on the importance of an advanced degree conflicts with those of the developers'. They thought work experience

was more worthwhile. While this may have been true in the past, conditions are changing the preparation needed. Development is becoming highly sophisticated. Projects are increasing in size, and financing and legal aspects are becoming extremely complex. The future will require the aspiring developer to have an extensive knowledge in many areas.

The author concludes that a formal education in real estate and/or finance at the bachelor's level is a prerequisite for becoming a commercial developer. Although completion of an advanced degree is strongly recommended, the author does not believe it is a prerequisite.

The ideal work experience to prepare an individual to become a commercial developer is real estate sales. The individual will start selling single-family homes, but should become active in commercial sales as quick as possible. The majority of the developers interviewed thought the ideal work experience would be working for a developer. The author believes work experience in real estate sales could be more beneficial. The individual would see a variety of real estate transactions. He would learn property values, appraisal, and how to package a real estate deal. He would learn who is buying and selling and what is being bought and sold. This would provide inside information for future development sites and projects. To be financially successful, he would have to be aggressive and persistent. He would be exposed to irregular income streams very early. He would also make numerous connections during this time.

The author's conclusion is that work experience in sales, or any development related area is not a prerequisite for becoming a developer. There are developers from unrelated backgrounds that learned development from on-the-job training. However, work experience, especially in sales, is strongly recommended.

The new developer can then purchase land options with his sales commissions for his first development project. The land options will provide him with an equity position. He will then be able to attract capital. Investors will know he is seriously committed when they see his personal funds are invested in the project. The developer should acquire capital for his first project through a limited partnership. He should meet with a financial planner who will locate willing investors. The new developer will acquire capital, but retain sole decision-making authority over the project.

The majority of the developers interviewed used partnerships to acquire capital for their first project. It is the author's opinion that partnerships are dangerous situations. The developer can be held financially liable for his partners actions. Partnerships can also result in the developer relinquishing part of his decision-making authority. Most often, the partner selected is a friend. This saves time because the two friends have already developed mutual trust. The author believes that friends and family should not be partners.

The author's conclusion is that access to capital is a prerequisite for becoming a commercial real estate developer.

All connections are important for the developer. These include financial, political, and professional. None are more important than

the others. Connections are interrelated. Without political contacts it may be difficult to obtain a rezoning. Without zoning change approval, the developer's financial contacts are not very useful. The author's opinion is consistent with only one of the developers interviewed.

The aspiring developer should establish contacts by participating in as many community activities and professional organizations as his schedule permits. He should be known in the community prior to developing his first project. He will face less opposition than an unknown. He should start developing connections while in college and keep in contact with classmates. Classmates in other cities could eventually lead to the developer expanding into other states.

The author concludes that connections are a prerequisite for becoming a developer.

The personality traits most characteristic of the developer are - perseverance, risk-taking, honesty, a strong ego, creativity, and responsibility. The developers interviewed believe perseverance is the most common personality trait a developer possesses. The author's opinion conflicts with those of the developers'. She believes risk-taking is the "common thread" among developers. It is a universal personality trait. Otherwise, the author agrees with the developers' responses.

The author's conclusion is that these personality traits are prerequisites for becoming a developer. They are prerequisites because not every individual possesses these traits. These qualities are innate and cannot be taught in school.

Individuals aspiring to become commercial real estate developers should be aware of the four prerequisites that exist. First, he should complete a formal education in real estate and/or finance at the bachelor's level. Second, he must have access to capital. Third, he has to develop financial, political, and professional connections. Fourth, he must possess several important innate personality traits.

Additional Conclusions

1. The field of commercial real estate development is dominated by men. All fifteen interviewees were male. There were not any women commercial developers currently active in Knoxville. Further research is necessary to determine whether women experience difficulty in entering the field, or whether women do not have an interest in pursuing this type of career.

2. Becoming a commercial real estate developer is not an intentional career choice. Instead, it gradually evolves from participation in related activities such as sales or construction.

3. Thirteen different subjects were reported as being useful for developers. The subjects reported most often were real estate, finance, and accounting. The developers emphasized the "numbers side" of real estate development rather than the "brick and mortar side."

4. The developers believed work experience was more beneficial than a formal education in their development careers.

5. The developers who did not attend college chose to diversify and have developed outside of Knoxville. One is a regional developer.

6. Those developers who work solely in Knoxville develop a variety of projects. They do not specialize.

7. The majority of the developers prefer a particular type of project. It is usually the same type as their first project.

8. There does not appear to be a progression of project types through which the developer evolves. He begins with a project in an area he feels most knowledgeable.

9. The older developers used partnerships to obtain capital for their first project. The younger developers preferred to borrow capital from other sources.

10. The majority of the developers who thought financing their first project was not difficult had financial resources prior to developing and did not provide sweat equity.

11. The majority of developers who said financing their first project was not difficult also ranked financial connections as the most important.

12. The greatest risk in development is financial. Although risk-taking cannot be learned, it does become easier over time due to experience.

This thesis has increased the author's awareness of the commercial real estate developer. Such insight has prepared her to be more effective as a public planner, or to pursue a career in private real estate development.

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APPENDIXES

APPENDIX A

INTERVIEW QUESTIONNAIRE

INTERVIEW QUESTIONNAIRE

1. Tell me how you became a developer:

A. Preparation

How did you become interested in development?

Was becoming a developer your intended career?

Did you prepare in any way to become a developer?

Can one prepare to become a developer?

If so, what preparation would you recommend?

B. Family Background

Is your family's background in real estate development or a related area?

Did anyone in your family influence you to pursue a career as a developer?

Did you have a role model to follow while beginning your career?

2. Tell me about your background before you were in commercial real estate development:

A. Education

Where did you attend college?

What degree did you obtain?

When did you graduate?

What subjects are the most useful for a career as a commercial real estate developer?

Were there subjects you did not take which would have been useful in your development career?

In what ways would an advanced degree be useful in a development career?

Could a Master's Degree in Real Estate Development teach students to become developers? Why or why not?

If you could do it over again, would you change your educational background?

B. Work Experience

Was your prior work experience in real estate development or did you have a variety of work experience in different areas?

How was your work experience useful in your development career?

What is the "ideal type" of work experience that should be pursued by the aspiring developer?

3. Tell me about your work experience once you became a practicing commercial real estate developer in Knoxville:

A. Knoxville

Are you a Knoxville native?

If not, where are you from?

How long have you lived in Knoxville?

Did you begin developing in Knoxville?

At what age did you begin developing?

How many years have you been a practicing developer?

B. Self-Employment

When did you go to work for yourself? Where?

What was the major factor influencing your decision to become self-employed?

Was going into business for yourself a goal you set years ago and then attempted to achieve?

If so, how did you plan for this?

What are the advantages and disadvantages of being self-employed?

C. Projects

Do you develop only in Knoxville? Why?

Is there a type of project that the first-time developer often starts with? What did you start with and why?

Do you stick with one type of project if it works well, or do you diversify?

What projects do you prefer and why?

Do you like to concentrate on one project at a time, or work on several?

D. Financing

How does the new developer obtain equity?

How did you acquire capital for your first project?

How difficult was it to obtain financing?

When and how does access to capital become easier?

Do you have, or have you ever had a partner?

How did you choose your partner?

Was your partner a friend or family member?

Do you have a preference?

4. What "contacts" or "connections" are important to have in commercial real estate development?

How do you develop these contacts?

Does it take long to develop contacts?

Are they difficult to develop? Why or why not?

5. What personality traits are characteristic of developers?

Can these personality traits be enhanced through education or experience? Which is more likely?

Do you think there is a stereotype typically used to portray the developer?

If so, is the stereotype accurate?

A. Risk

What risks are there in commercial real estate development?

Which risk is the greatest?

Can someone learn to be a risk-taker?

Does risk-taking become easier over time?

Are you a "calculated risk-taker" or a "gambler?"

B. Motivation

What motivates you to be a developer?

Have your motivations changed over time with experience?

6. Is there any concluding remarks you would like to make?

Has the public ever reacted negatively to one of
your projects? How do you deal with it?

Are you involved in community activities?

APPENDIX B

TABULATION OF KEY RESPONSES

TABLE 1

[illegible]

TABLE 1 (Continued)

	Developer Code Number															Total
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	
<u>Family Influence Pursuit of a Development Career?</u>																
Yes	x						x							x		3
No								x			x	x				3
<u>Role Models Used During Development Career?</u>																
Yes	x		x							x					x	4
No		x		x	x	x	x	x	x		x	x	x	x		11
<u>Intentional Career Choice?</u>																
Yes																2
No	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	13
<u>Preparation Possible for a Development Career?</u>																
Yes	x	x	x	x	x	x	x	x	x		x	x		x		12
No										x			x	x		3
<u>Recommended Preparation?</u>																
School											x					2
Work Experience					x				x						x	3
Both	x	x	x	x			x	x				x				7

*Data was grouped to protect the developers' confidentiality.

TABLE 2

EDUCATION

		Developer Code Number															
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	Total
<u>Bachelor's--Major Course of Study</u>																	
Real Estate	x				x							x					3
History								x							x		2
Agriculture Education														x			1
Biology			x								x						1
Philosophy											x						1
Political Science											x						1
Finance							x										1
Accounting		x							x								1
<u>College Attended</u>																	
Univ. Of TN, Knoxville	x	x			x	x			x				x	x	x		8
Other			x					x			x						3
<u>Master's--Major Course of Study</u>																	
Educational Administration				x													1
Business Administration (Finance)																	1
<u>College Attended</u>																	
Univ. of TN, Knoxville			x					x									2
Other																	0

TABLE 2 (Continued)

	Developer Code Number															Total
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	
<u>Are Advanced Degrees Beneficial?</u>																
Yes				x	x		x		x			x				5
No	x	x	x			x		x		x	x		x	x	x	10
<u>Education Useful in Development Career?</u>																
Yes																
No	x	x	x				x	x				x	x	x	x	9
				x	x	x			x	x	x					6
<u>Useful Courses for Developers</u>																
Real Estate		x	x					x			x				x	5
Finance	x	x			x	x			x							5
Accounting										x					x	4
Liberal Arts				x				x								2
Negotiation Skills							x							x		1
Design			x													1
Engineering												x				1
Construction										x		x	x			3
Law					x				x							1
Planning	x															2
Ethics													x		x	2
Mathematics																1
Business Management					x											1
											x					1

TABLE 3

WORK EXPERIENCE

[illegible]

TABLE 3 (Continued)

Diversification of Project Type	Developer Code Number															Total
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	
Single-family Homes				x						x	x		x			4
Apartments			x	x							x					2
Strip Centers								x	x				x		x	4
Regional Mall													x			1
Office	x			x				x	x						x	5
Hotel				x												1
Restaurant										x	x					2
Mini-warehouses										x	x					1
Industrial Buildings	x			x				x			x					4
Mixed Use																2
Do Not Diversify		x	x		x	x	x	x				x		x		6
Preferred Project Type																
Office		x					x	x							x	4
Strip Centers			x		x	x				x						4
Industrial	x								x							2
Mini-warehouses											x					1
No Preference				x								x	x	x		4
Geographical Expansion																
Knoxville Only	x						x		x			x	x	x		5
Other Cities in Tennessee		x			x			x			x				x	6
Alabama		x													x	2
Florida											x					1
Colorado											x					1
Wisconsin											x					1
North Carolina			x													1
Southeast U. S.				x		x				x						3

TABLE 4

FINANCING

	Developer Code Number														
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
<u>Obtaining Equity for First Project</u>															
Financial Resources	x			x				x		x				x	
Sales Commissions									x			x	x		
Owned a Business															
Sweat Equity		x	x		x	x	x				x				
<u>Attracting Capital for First Project</u>															
Partnerships		x		x	x			x		x					
Financial Institutions	x		x				x		x			x	x		
Limited Partnerships						x								x	
Joint Ventures															x
<u>Difficult to Finance First Development Project?</u>															
Yes	x	x	x	x		x		x		x	x	x	x		x
No					x		x		x		x			x	

TABLE 5

"CONNECTIONS"

	Developer Code Number															Total
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	
<u>Useful "Connections"</u>																
Financial				x	x		x			x		x		x		6
Political	x							x			x					3
Tenants		x	x													2
Depends on Project						x							x			2
Professional									x							1
All Contacts															x	1
<u>Involved in Community Activities?</u>																
Yes	x		x	x	x	x	x	x	x		x	x	x	x	x	13
No		x								x						2
<u>Difficult to Establish Connections?</u>																
Yes				x				x								2
No	x	x	x		x	x	x		x	x	x	x	x	x	x	13

PERSONALITY TRAITS

[illegible]

VITA

Teresa Marie Irwin was born on March 7, 1962. She attended grade schools in Detroit, Michigan and Chicago, Illinois. In 1980, she graduated from Ballard High School in Louisville, Kentucky. The following August, she attended Western Kentucky University in Bowling Green. As an undergraduate, she received a Bachelor of Science Degree in Geography, was elected Secretary of Gamma Theta Upsilon Geographical Honor Society, and was presented with the Outstanding Geography Senior Award. She graduated Magna Cum Laude in 1984.

The following September, she received a graduate assistantship and entered the Graduate School of Planning at The University of Tennessee, Knoxville. As a graduate student, she was elected a member of the Honor Society of Phi Kappa Phi, served as Secretary and Treasurer of the Collegiate Institute of Planners, and was a member of the American Planning Association. She was awarded a Chancellor's Citation for Professional Promise, and also received awards for academic achievement and research. She received the Master of Science in Planning degree.

The author also worked as a planning intern for the city of Fort Worth, Texas, the Green River Area Development District in Owensboro, Kentucky, and the Knoxville/Knox County Metropolitan Planning Commission. She intends to pursue a career in planning or real estate development in the Southeast.