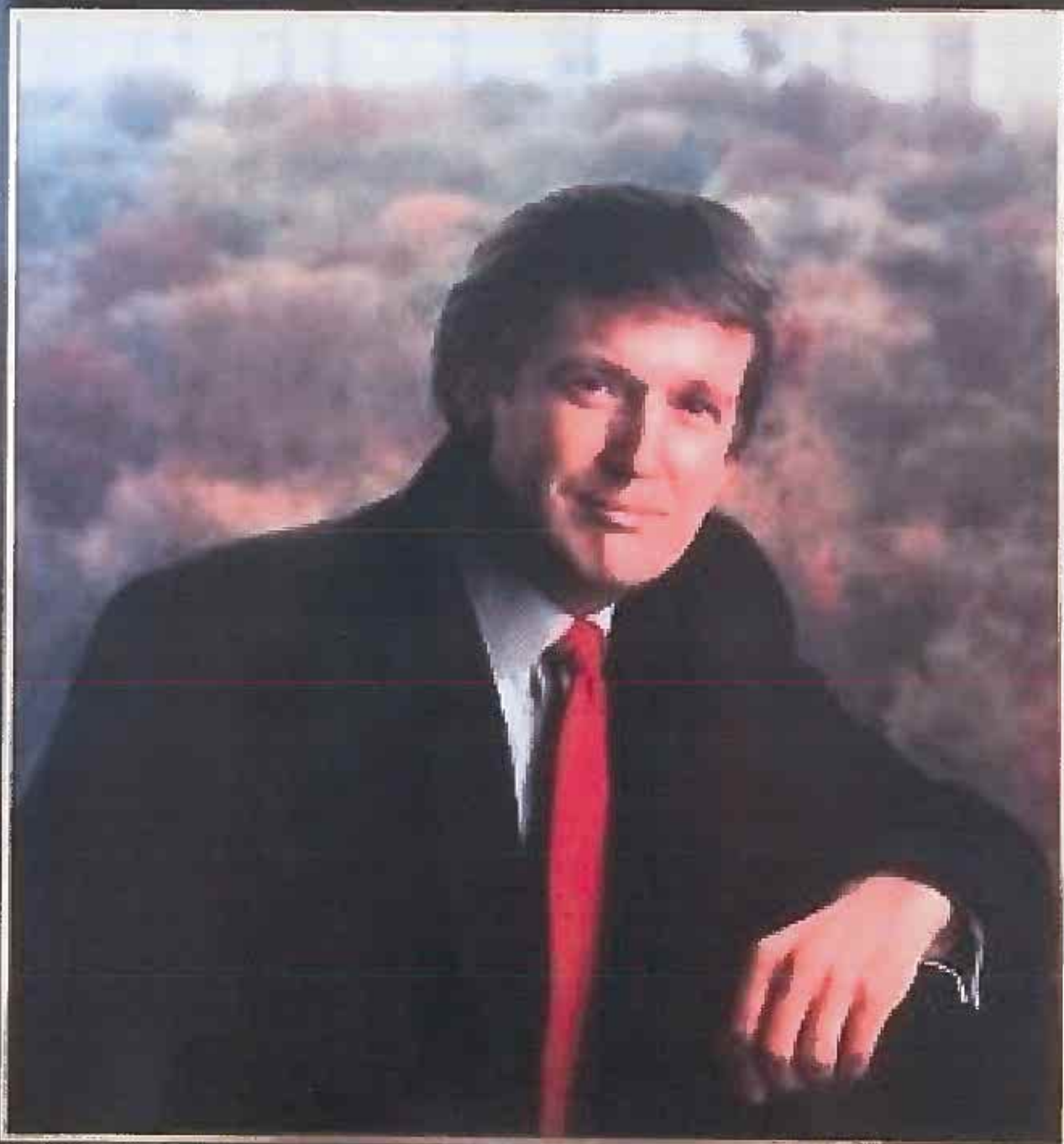


TRUMP

THE ART OF THE DEAL



DONALD J. TRUMP with TONY SCHWARTZ

TRUMP CARDS

The Elements of the Deal

MY STYLE of deal-making is quite simple and straightforward. I aim very high, and then I just keep pushing and pushing and pushing to get what I'm after. Sometimes I settle for less than I sought, but in most cases I still end up with what I want.

More than anything else, I think deal-making is an ability you're born with. It's in the genes. I don't say that egotistically. It's not about being brilliant. It does take a certain intelligence, but mostly it's about instincts. You can take the smartest kid at Wharton, the one who gets straight A's and has a 170 IQ, and if he doesn't have the instincts, he'll never be a successful entrepreneur.

Moreover, most people who do have the instincts will never recognize that they do, because they don't have the courage or the good fortune to discover their potential. Somewhere out there are a few men with more innate talent at golf than Jack Nicklaus, or women with greater ability at tennis than Chris Evert or Martina Navratilova, but they will never lift a club or swing a racket and therefore will never find out how great they could have been. Instead, they'll be content to sit and watch stars perform on television.

When I look back at the deals I've made—and the ones I've lost or let pass—I see certain common elements. But unlike the real estate evangelists you see all over television these days, I can't promise you that by following the precepts I'm about to offer you'll become a millionaire overnight. Unfortunately, life rarely works that way, and most people who try to get rich quick end up going broke instead. As for those among you who do have the genes, who do have the instincts, and who could be highly successful, well, I still hope you won't follow my advice. Because that would just make it a much tougher world for me.

Think Big

I like thinking big. I always have. To me it's very simple: if you're going to be thinking anyway, you might as well think big. Most people think small, because most people are afraid of success, afraid of making decisions, afraid of winning. And that gives people like me a great advantage.

My father built low-income and middle-income buildings in Brooklyn and Queens, but even then, I gravitated to the best location. When I was working in Queens, I always wanted Forest Hills. And as I grew older, and perhaps wiser, I realized that Forest Hills was great, but Forest Hills isn't Fifth Avenue. And so I began to look toward Manhattan, because at a very early age, I had a true sense of what I wanted to do.

I wasn't satisfied just to earn a good living. I was looking to make a statement. I was out to build something monumental—something worth a big effort. Plenty of other people could buy and sell little brownstones, or build cookie-cutter red-brick buildings. What attracted me was the challenge of building a spectacular development on almost one hundred acres by the river on the West Side of Manhattan, or creating a huge new hotel next to Grand Central Station at Park Avenue and 42nd Street.

The same sort of challenge is what attracted me to Atlantic City. It's nice to build a successful hotel. It's a lot better to build a hotel attached to a huge casino that can earn fifty times what you'd ever earn renting hotel rooms. You're talking a whole different order of magnitude.

One of the keys to thinking big is total focus. I think of it almost as a controlled neurosis, which is a quality I've noticed in many highly successful entrepreneurs. They're obsessive, they're driven, they're single-minded and sometimes they're almost maniacal, but it's all channeled into their work. Where other people are paralyzed by neurosis, the people I'm talking about are actually helped by it.

I don't say this trait leads to a happier life, or a better life, but it's great when it comes to getting what you want. This is particularly true in New York real estate, where you are dealing with some of the sharpest, toughest, and most vicious people in the world. I happen to love to go up against these guys, and I love to beat them.

Protect the Downside and the Upside Will Take Care of Itself

People think I'm a gambler. I've never gambled in my life. To me, a gambler is someone who plays slot machines. I prefer to own slot machines. It's a very good business being the house.

It's been said that I believe in the power of positive thinking. In fact, I believe in the power of negative thinking. I happen to be very conservative in business. I always go into the deal anticipating the worst. If you plan for the worst—if you can live with the worst—the good will always take care of itself. The only time in my life I didn't follow that rule was with the USFL. I bought a losing team in a losing league on a long shot. It almost worked, through our antitrust suit, but when it didn't, I had no fallback. The point is that you can't be too greedy. If you go for a home run on every pitch, you're also going to strike out a lot. I try never to leave myself too exposed, even if it means sometimes settling for a triple, a double, or even, on rare occasions, a single.

One of the best examples I can give is my experience in Atlantic City. Several years ago, I managed to piece together an incredible site on the Boardwalk. The individual deals I made for parcels were contingent on my being able to put together the whole site. Until I achieved that, I didn't have to put up very much money at all.

Once I assembled the site, I didn't rush to start construction. That meant I had to pay the carrying charges for a longer period, but before

I spent hundreds of millions of dollars and several years on construction, I wanted to make sure I got my gaming license. I lost time, but I also kept my exposure much lower.

When I got my licensing on the Boardwalk site, Holiday Inns came along and offered to be my partner. Some people said, "You don't need them. Why give up fifty percent of your profits?" But Holiday Inns also offered to pay back the money I already had in the deal, to finance all the construction, and to guarantee me against losses for five years. My choice was whether to keep all the risk myself, and own 100 percent of the casino, or settle for a 50 percent stake without putting up a dime. It was an easy decision.

Barron Hilton, by contrast, took a bolder approach when he built his casino in Atlantic City. In order to get opened as quickly as possible, he filed for a license and began construction on a \$400 million facility at the same time. But then, two months before the hotel was scheduled to open, Hilton was denied a license. He ended up selling to me at the last minute, under a lot of pressure, and without a lot of other options. I renamed the facility Trump's Castle and it is now one of the most successful hotel-casinos anywhere in the world.

Maximize Your Options

I also protect myself by being flexible. I never get too attached to one deal or one approach. For starters, I keep a lot of balls in the air, because most deals fall out, no matter how promising they seem at first. In addition, once I've made a deal, I always come up with at least a half dozen approaches to making it work, because anything can happen, even to the best-laid plans.

For example, if I hadn't gotten the approvals I wanted for Trump Tower, I could always have built an office tower and done just fine. If I'd been turned down for licensing in Atlantic City, I could have sold the site I'd assembled to another casino operator, at a good profit.

Perhaps the best example I can give is the first deal I made in Manhattan. I got an option to purchase the Penn Central railyards at West 34th Street. My original proposal was to build middle-income housing on the site, with government financing. Unfortunately, the city began to have financial problems, and money for public housing suddenly

dried up. I didn't spend a lot of time feeling sorry for myself. Instead, I switched to my second option and began promoting the site as ideal for a convention center. It took two years of pushing and promoting, but ultimately the city did designate my site for the convention center—and that's where it was built.

Of course, if they hadn't chosen my site, I would have come up with a third approach.

Know Your Market

Some people have a sense of the market and some people don't. Steven Spielberg has it. Lee Iacocca of Chrysler has it, and so does Judith Krantz in her way. Woody Allen has it, for the audience he cares about reaching, and so does Sylvester Stallone, at the other end of the spectrum. Some people criticize Stallone, but you've got to give him credit. I mean, here's a man who is just forty-one years old, and he's already created two of the all-time-great characters, Rocky and Rambo. To me he's a diamond-in-the-rough type, a genius purely by instinct. He knows what the public wants and he delivers it.

I like to think I have that instinct. That's why I don't hire a lot of number-crunchers, and I don't trust fancy marketing surveys. I do my own surveys and draw my own conclusions. I'm a great believer in asking everyone for an opinion before I make a decision. It's a natural reflex. If I'm thinking of buying a piece of property, I'll ask the people who live nearby about the area—what they think of the schools and the crime and the shops. When I'm in another city and I take a cab, I'll always make it a point to ask the cabdriver questions. I ask and I ask and I ask, until I begin to get a gut feeling about something. And that's when I make a decision.

I have learned much more from conducting my own random surveys than I could ever have learned from the greatest of consulting firms. They send a crew of people down from Boston, rent a room in New York, and charge you \$100,000 for a lengthy study. In the end, it has no conclusion and takes so long to complete that if the deal you were considering was a good one, it will be long gone.

The other people I don't take too seriously are the critics—except when they stand in the way of my projects. In my opinion, they mostly

write to impress each other, and they're just as swayed by fashions as anyone else. One week it's spare glass towers they are praising to the skies. The next week, they've rediscovered old, and they're celebrating detail and ornamentation. What very few of them have is any feeling for what the public wants. Which is why, if these critics ever tried to become developers, they'd be terrible failures.

Trump Tower is a building the critics were skeptical about before it was built, but which the public obviously liked. I'm not talking about the sort of person who inherited money 175 years ago and lives on 84th Street and Park Avenue. I'm talking about the wealthy Italian with the beautiful wife and the red Ferrari. Those people—the audience I was after—came to Trump Tower in droves.

The funny thing about Trump Tower is that we ended up getting great architectural reviews. The critics didn't want to review it well because it stood for a lot of things they didn't like at the time. But in the end, it was such a gorgeous building that they had no choice but to say so. I always follow my own instincts, but I'm not going to kid you: it's also nice to get good reviews.

Use Your Leverage

The worst thing you can possibly do in a deal is seem desperate to make it. That makes the other guy smell blood, and then you're dead. The best thing you can do is deal from strength, and leverage is the biggest strength you can have. Leverage is having something the other guys want. Or better yet, needs. Or best of all, simply can't do without.

Unfortunately, that isn't always the case, which is why leverage often requires imagination, and salesmanship. In other words, you have to convince the other guy it's in his interest to make the deal.

Back in 1974, in an effort to get the city to approve my deal to buy the Commodore Hotel on East 42nd Street, I convinced its owners to go public with the fact that they were planning to close down the hotel. After they made the announcement, I wasn't shy about pointing out to everyone in the city what a disaster a boarded-up hotel would be for the Grand Central area, and for the entire city.

When the board of Holiday Inns was considering whether to enter into a partnership with me in Atlantic City, they were attracted to my

site because they believed my construction was farther along than that of any other potential partner. In reality, I wasn't that far along, but I did everything I could, short of going to work at the site myself, to assure them that my casino was practically finished. My leverage came from confirming an impression they were already predisposed to believe.

When I bought the West Side railyards, I didn't name the project Television City by accident, and I didn't choose the name because I think it's pretty. I did it to make a point. Keeping the television networks in New York—and NBC in particular—is something the city very much wants to do. Losing a network to New Jersey would be a psychological and economic disaster.

| Leverage: don't make deals without it.

Enhance Your Location

Perhaps the most misunderstood concept in all of real estate is that the key to success is location, location, location. Usually, that's said by people who don't know what they're talking about. First of all, you don't necessarily need the best location. What you need is the best deal. Just as you can create leverage, you can enhance a location, through promotion and through psychology.

When you have 57th Street and Fifth Avenue as your location, as I did with Trump Tower, you need less promotion. But even there, I took it a step further, by promoting Trump Tower as something almost larger than life. By contrast, Museum Tower, two blocks away and built above the Museum of Modern Art, wasn't marketed well, never achieved an "aura," and didn't command nearly the prices we did at Trump Tower.

Location also has a lot to do with fashion. You can take a mediocre location and turn it into something considerably better just by attracting the right people. After Trump Tower I built Trump Plaza, on a site at Third Avenue and 61st Street that I was able to purchase very inexpensively. The truth is that Third Avenue simply didn't compare with Fifth Avenue as a location. But Trump Tower had given a value to the Trump name, and I built a very striking building on Third Avenue. Suddenly we were able to command premium prices from

very wealthy and successful people who might have chosen Trump Tower if the best apartments hadn't been sold out. Today Third Avenue is a very prestigious place to live, and Trump Plaza is a great success.

My point is that the real money isn't made in real estate by spending the top dollar to buy the best location. You can get killed doing that, just as you can get killed buying a bad location, even for a low price. What you should never do is pay too much, even if that means walking away from a very good site. Which is all a more sophisticated way of looking at location.

Get the Word Out

You can have the most wonderful product in the world, but if people don't know about it, it's not going to be worth much. There are singers in the world with voices as good as Frank Sinatra's, but they're singing in their garages because no one has ever heard of them. You need to generate interest, and you need to create excitement. One way is to hire public relations people and pay them a lot of money to sell whatever you've got. But to me, that's like hiring outside consultants to study a market. It's never as good as doing it yourself.

One thing I've learned about the press is that they're always hungry for a good story, and the more sensational the better. It's in the nature of the job, and I understand that. The point is that if you are a little different, or a little outrageous, or if you do things that are bold or controversial, the press is going to write about you. I've always done things a little differently, I don't mind controversy, and my deals tend to be somewhat ambitious. Also, I achieved a lot when I was very young, and I chose to live in a certain style. The result is that the press has always wanted to write about me.

I'm not saying that they necessarily like me. Sometimes they write positively, and sometimes they write negatively. But from a pure business point of view, the benefits of being written about have far outweighed the drawbacks. It's really quite simple. If I take a full-page ad in the *New York Times* to publicize a project, it might cost \$40,000, and in any case, people tend to be skeptical about advertising. But if the *New York Times* writes even a moderately positive one-column story

about one of my deals, it doesn't cost me anything, and it's worth a lot more than \$40,000.

The funny thing is that even a critical story, which may be hurtful personally, can be very valuable to your business. Television City is a perfect example. When I bought the land in 1985, many people, even those on the West Side, didn't realize that those one hundred acres existed. Then I announced I was going to build the world's tallest building on the site. Instantly, it became a media event: the *New York Times* put it on the front page, Dan Rather announced it on the evening news, and George Will wrote a column about it in *Newsweek*. Every architecture critic had an opinion, and so did a lot of editorial writers. Not all of them liked the idea of the world's tallest building. But the point is that we got a lot of attention, and that alone creates value.

The other thing I do when I talk with reporters is to be straight. I try not to deceive them or to be defensive, because those are precisely the ways most people get themselves into trouble with the press. Instead, when a reporter asks me a tough question, I try to frame a positive answer, even if that means shifting the ground. For example, if someone asks me what negative effects the world's tallest building might have on the West Side, I turn the tables and talk about how New Yorkers deserve the world's tallest building, and what a boost it will give the city to have that honor again. When a reporter asks why I build only for the rich, I note that the rich aren't the only ones who benefit from my buildings. I explain that I put thousands of people to work who might otherwise be collecting unemployment, and that I add to the city's tax base every time I build a new project. I also point out that buildings like Trump Tower have helped spark New York's renaissance.

The final key to the way I promote is bravado. I play to people's fantasies. People may not always think big themselves, but they can still get very excited by those who do. That's why a little hyperbole never hurts. People want to believe that something is the biggest and the greatest and the most spectacular.

I call it truthful hyperbole. It's an innocent form of exaggeration—and a very effective form of promotion.

Fight Back

Much as it pays to emphasize the positive, there are times when the only choice is confrontation. In most cases I'm very easy to get along with. I'm very good to people who are good to me. But when people treat me badly or unfairly or try to take advantage of me, my general attitude, all my life, has been to fight back very hard. The risk is that you'll make a bad situation worse, and I certainly don't recommend this approach to everyone. But my experience is that if you're fighting for something you believe in—even if it means alienating some people along the way—things usually work out for the best in the end.

When the city unfairly denied me, on Trump Tower, the standard tax break every developer had been getting, I fought them in six different courts. It cost me a lot of money, I was considered highly likely to lose, and people told me it was a no-win situation politically. I would have considered it worth the effort regardless of the outcome. In this case, I won—which made it even better.

When Holiday Inns, once my partners at the Trump Plaza Hotel and Casino in Atlantic City, ran a casino that consistently performed among the bottom 50 percent of casinos in town, I fought them very hard and they finally sold out their share to me. Then I began to think about trying to take over the Holiday Inns company altogether.

Even if I never went on the offensive, there are a lot of people gunning for me now. One of the problems when you become successful is that jealousy and envy inevitably follow. There are people—I categorize them as life's losers—who get their sense of accomplishment and achievement from trying to stop others. As far as I'm concerned, if they had any real ability they wouldn't be fighting me, they'd be doing something constructive themselves.

Deliver the Goods

You can't con people, at least not for long. You can create excitement, you can do wonderful promotion and get all kinds of press, and you can throw in a little hyperbole. But if you don't deliver the goods, people will eventually catch on.

I think of Jimmy Carter. After he lost the election to Ronald Reagan, Carter came to see me in my office. He told me he was seeking contributions to the Jimmy Carter Library. I asked how much he had in mind. And he said, "Donald, I would be very appreciative if you contributed five million dollars."

I was dumbfounded. I didn't even answer him.

But that experience also taught me something. Until then, I'd never understood how Jimmy Carter became president. The answer is that as poorly qualified as he was for the job, Jimmy Carter had the nerve, the guts, the balls, to ask for something extraordinary. That ability above all helped him get elected president. But then, of course, the American people caught on pretty quickly that Carter couldn't do the job, and he lost in a landslide when he ran for reelection.

Ronald Reagan is another example. He is so smooth and so effective a performer that he completely won over the American people. Only now, nearly seven years later, are people beginning to question whether there's anything beneath that smile.

I see the same thing in my business, which is full of people who talk a good game but don't deliver. When Trump Tower became successful, a lot of developers got the idea of imitating our atrium, and they ordered their architects to come up with a design. The drawings would come back, and they would start costing out the job.

What they discovered is that the bronze escalators were going to cost a million dollars extra, and the waterfall was going to cost two million dollars, and the marble was going to cost many millions more. They saw that it all added up to many millions of dollars, and all of a sudden these people with these great ambitions would decide, well, let's forget about the atrium.

The dollar always talks in the end. I'm lucky, because I work in a very, very special niche, at the top of the market, and I can afford to spend top dollar to build the best. I promoted the hell out of Trump Tower, but I also had a great product to promote.

Contain the Costs

I believe in spending what you have to. But I also believe in not spending more than you should. When I was building low-income

housing, the most important thing was to get it built quickly, inexpensively, and adequately, so you could rent it out and make a few bucks. That's when I learned to be cost-conscious. I never threw money around. I learned from my father that every penny counts, because before too long your pennies turn into dollars.

To this day, if I feel a contractor is overcharging me, I'll pick up the phone, even if it's only for \$5,000 or \$10,000, and I'll complain. People say to me, "What are you bothering for, over a few bucks?" My answer is that the day I can't pick up the telephone and make a twenty-five-cent call to save \$10,000 is the day I'm going to close up shop.

The point is that you can dream great dreams, but they'll never amount to much if you can't turn them into reality at a reasonable cost. At the time I built Trump Plaza in Atlantic City, banks were reluctant to finance new construction at all, because almost every casino up to then had experienced tens of millions of dollars in cost overruns. We brought Trump Plaza in on budget, and on time. As a result, we were able to open for Memorial Day weekend, the start of the high season. By contrast, Bob Guccione of *Penthouse* has been trying for the past seven years to build a casino on the Boardwalk site right next to ours. All he has to show for his efforts is a rusting half-built frame and tens of millions of dollars in lost revenues and squandered carrying costs.

Even small jobs can get out of control if you're not attentive. For nearly seven years I watched from the window of my office as the city tried to rebuild Wollman Rink in Central Park. At the end of that time, millions of dollars had been wasted and the job was farther from being completed than when the work began. They were all set to rip out the concrete and start over when I finally couldn't stand it anymore, and I offered to do it myself. The job took four months to complete at a fraction of the city's cost.

Have Fun

I don't kid myself. Life is very fragile, and success doesn't change that. If anything, success makes it more fragile. Anything can change, without warning, and that's why I try not to take any of what's happened too seriously. Money was never a big motivation for me, except as a

way to keep score. The real excitement is playing the game. I don't spend a lot of time worrying about what I should have done differently, or what's going to happen next. If you ask me exactly what the deals I'm about to describe all add up to in the end, I'm not sure I have a very good answer. Except that I've had a very good time making them.