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Industry Leader Profile: Robert Duncan

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Transwestern Investment Company

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Abstract

After earning BBA, MBA, and LLB degrees from the University of Texas at Austin, Mr. Duncan began his career with Trammell Crow in Dallas, Texas. He was responsible for commercial operations in San Antonio in 1978, when he left to form Transwestern. Since then, he has directed Transwestern's expansion from a small Texas development company into a highly diversified national real estate investment and operating organization.

Throughout his career he has been known for timely and effective responses to challenging markets and crises dating back to the oil and energy shocks of the 1970s. During a distinguished career in the real estate industry, Mr. Duncan has built a strong reputation for integrity, service to clients, and putting his people and organization first.

Today Transwestern is one of the largest privately held commercial real estate firms in the United States. A diversified company, Transwestern is active in the real estate services, development, and investment management businesses. Transwestern was awarded the Energy Star Partner of the Year award in 2004 and 2005. In addition, the firm has received Energy Star's Sustained Excellence Award six years in a row. Vigilant in preserving its culture of empowerment, Transwestern has been consistently recognized by numerous periodicals as one of the "Top Places to Work" in cities and states across the country.

Keywords

Transwestern, Transwestern Investment Company, Trammell Crow, commercial, Industry Leader Award, University of Texas at Austin, Cornell, real estate

Industry Leader Profile

Chairman, Transwestern
and Transwestern Investment Company

Robert Duncan

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Congratulations on receiving the Cornell Program in Real Estate's 2011 Industry Leader Award, and thank you for participating in this interview.

I am honored by the selection, and knowing that Cornell University and the Program in Real Estate are such esteemed institutions makes it even more special. In addition, knowing the criteria that you use to select the industry leader makes me very proud of our team at Transwestern. When I look at the kind of things you are selecting us for, it helps me recognize how much of a team win this is, and so I am accepting this on behalf of the whole company and as a steward for the entire group.

Your firm has a history of finding opportunities in difficult business environments. One example is the way you built credibility and relationships with your lenders in the 1980's, which led directly to your coveted institutional client base. Does your business strategy change as the market fluctuates?

Absolutely, a firm's strategy will change as the market fluctuates. In fact, if you asked me, "What is the single

most important component of Transwestern's survival over the 33 years we've been around?" I would say it is our ability to adjust to change. That would be our single biggest strength. We've certainly made some mistakes along the way and have had painful experiences like many firms. But we have been able to move fairly rapidly in a reasonably decisive manner with a basic consensus and make big decisions to adjust to changing market conditions. So, our strategy absolutely changes with the market, but rather than pointing to any particular points of brilliance, I would argue that it is an endemic organizational drive to meet the market and make the necessary adjustments in order to capture different market opportunities that has shaped Transwestern.

What effect(s) did the most recent recession have on Transwestern? Has it helped your firm in any way?

If you're an active player in real estate, downturns hurt. When you are engaged in the market and have bets on the board, you will have challenges in a market collapse. Dealing with the issues head on, versus trying to avoid them, will help you manage through the crisis.

Regarding the recent recession, when you cut the transaction volume as dramatically as it was cut, you simply cannot avoid the impact on the bottom line. And when you are heavily invested and your properties depreciate in value, you will get hurt. That being said, if you are committed to looking at yourself in the mirror and examining the situation, you can act quickly and decisively when these situations happen.

Tough times can be very solidifying and can help you stay on track with your vision for your company and build on your strengths. I'll give you an example: Ever since the previous recession of the mid '80's and the recovery phase of the early '90's, Transwestern has focused

on concurrent strategies of building a national diversified services organization while simultaneously building investment management competencies. While the downturn was most painful in our discretionary funds initiative, Transwestern Investment Company, the focus by institutional investors on portfolio management, value preservation, processes and structures for reducing volatility, and the reallocation to core assets, has meant enormous opportunity for our investment management business.

The downturn led us to reengineer our investment platform to serve a much broader array of investors, and to do so synergistically through a fully integrated service platform designed to deliver to our investors better controls, transparency, alignment of interests, and connectivity to the marketplace. We're a better company now because of the downturn. And we are focused on a more powerful strategy to meet the emerging needs of the market.

What motivated you to start Transwestern in 1978? Were there specific market opportunities that you were looking to capitalize upon?

The late 70's was an excellent time in the development business. We started out as a spec developer, but did not do any third party services work. We built properties for our own account and then we performed what is considered third party work internally to create value for our own portfolio. The time was great for development, the recession of the early and mid-1970's had ended and the market was really responding. The Texas markets, where we were located, rebounded particularly well. We found ourselves looking at numerous undersupplied markets in the key Texas cities that we knew and understood. We had rising demand and high occupancies, both pieces of the puzzle required to generate higher rental rates. The icing on the cake was the attractive financing. The banks played a large role in project financing, providing not only fundamental debt financing, but also attractive mezzanine debt. So in this market of attractive financing and rising prices, it brought smiles to

the faces of people who were putting product on the ground. Good markets make you feel a little smarter than you really are, and conversely a turn in the markets or the bad markets make you feel a little dumber than you really are. We've had all those feelings! The market was near ideal for development companies to take shape and make some things happen.

When looking at your overall strategy, what are some of the key factors that went into developing a firm such as Transwestern?

The strategy might differ depending on the size and maturity of the firm. For many, many years, even when we were a very small company, we tried to make the strategy of the company a major ongoing focus of the firm. We've always conducted somewhat formal strategy sessions which we do annually and then fortify, supplement and review semi-annually. We've done this for years and years, and it's always been a pivotal practice for us.

It is basically being proactive versus being reactive, but includes a clear plan of attack with accountability on implementing the decisions we make. The process works to fortify a team approach, and develop a consensus-building approach so that everyone is fully committed and on board moving forward, even when difficult decisions or changes are needed to be made.

Would you start your own business again? What would you do differently?

There is no question that I would do it all over again. It was an exciting time in the early years and has become even more exciting and intellectually stimulating as we have grown in size and complexity.

Looking back at that time period there were a few things that I would do differently. First, we took on a lot of personal liability during our early days as developers. That was based on the way most developers did business and what most banks expected to see. But that kind of exposure was not appropriate in a cyclical business like real estate. The negative impacts of high leverage and recourse financing are brutal when

the market does not perform. So we learned that you need to structure your deals in a more precautionary sense that would be more protected in a downturn.

Another thing that I would change is to dispose of a portion of the portfolio in order to preserve liquidity. In the very beginning we hung on to everything we built because we wanted to build a portfolio of permanently-owned assets. Had we sold more of the assets, we would have had more liquidity back then. Fortunately, we learned from this. We have no debt on the company today and this has been a huge factor in our recent growth and flexibility as a firm.

The third thing that I would change would be that I would have diversified our sources of income. All of the income came from the development fees and the cash flows from the properties. When the market turns downward, the first thing to go are the development fees. One of the things we learned is the importance of having a more normalized, diversified income stream as a company. Once again, these problems inspired us to create the evergreen, diversified organization we have today.

What is your leadership philosophy?

Without empowerment, there is no way in the world to create a great company that instinctively, naturally adjusts to the changing times and moves with the decisiveness and intelligence that an organization needs. If you have a particular opportunity that you're looking to tap or something you want to accomplish, you can always put together the resources and go do it. But if you are truly looking to build a company, one with a lot of people with different views and ideas, we believe you need a noble vision that is much broader than making money or beating the competition. This really brings humanity to the equation, which is a big driver.

People want to be part of something good and meaningful, because people are inherently caring and responsible. In order to bring out the best in our people we feel like it is important to have a noble vision. We like to think of ourselves as thought leaders in the

industry and we want to contribute to the industry, as it helps us work that much harder to become exemplary in what we do. We call this 'Bold Vision/Noble Mission.'

As a firm we are committed to reaching our vision of being the number one real estate value creator in America. Along these lines, and in concert with our clients' feedback, we recently established our 'VISION 2020' initiative. We are very excited about this initiative, which redefines us as a 'fully integrated solutions provider' for both investors and users of real estate.

Which leadership lessons stick out in your mind?

I would say looking back through good times and bad underlines the importance of the leadership of the company needing to develop a shared vision. So much feedback in business circles tell you that in many companies, including our own in years past, people do not understand where the company wants to go, and what actions they need to make to help the company prosper. Where we have had a clear vision, we have done well. When we haven't had a clear vision, we've recognized the need to get together and figure it out and communicate that vision to the entire organization.

If you are going to build a real estate company, you have to put the organization first. The assets come and go, the markets go up and down, but if the center of your focus is the creation, enhancement and development of the organization itself, good things will happen. That means putting your people first. Especially in downturns, where you could make more grueling decisions that might create more instant bottom-line performance but that might compromise the strength of the company. It is so important to take a longer term perspective and put the organization first.

Also, an important part of strategic thinking is you must have the courage to face the brutal facts. We're human and we can get caught up in so much of what we want to see happen or what we want to be, that we lose sight of reality. You have to be able

to pull yourself out of that and be objective, and you need to realize that as a team you can deal with just about any problem if you have the courage to face the facts and pay the price to make tough decisions. The disaster scenario is to either ignore the problem or see it but think that it will go away on its own. As you face the brutal facts and then together as a team develop constructive solutions for the problems, it is amazing how well an organization is able to adjust.

Another lesson is that everyone likes transparency. Sometimes there is a tendency or temptation by leadership to make everyone feel good by sweeping bad news under the rug, or trying to window dress things to a point that you develop these appearances that everything is ok. The reality is that everybody knows that nobody is perfect, and everybody knows that people make mistakes. If you are quick to recognize your mistakes and equally quick to fix those mistakes and make sure that it doesn't happen again, it is amazing the resilience that you will find regardless of the venue you are in. We have decided that we need to be forthright and objective-I'm not saying we need to be pessimistic or negative-just prepared to call a spade a spade.

There will be times in the development of an organization when you come across decisions that are extremely tough to make, where there is not a clear answer. When we have those questions come up, we ask ourselves how the client would answer the question. We are in business to create value for others, and our focus remains on finding what is in the best interests of our clients. Determining what is in the best interest of our clients brings clarity to complicated issues.

Finally, we've always tried to do the right thing. It's not just business; it's not just money; it's not just doing deals. We will never do something as a company that would compromise our integrity, or be a bad representation of who

we are. If you always try to do the right thing, we believe that it will always work out. To make sure that we are never tempted to do otherwise, we also note and recognize that the market appreciates that integrity and honesty. It is the right thing to do, but it is also the smart thing to do because people like to deal with people that they trust and have confidence in. Those have been some of the items in leadership that we have learned throughout our time as a company.

Transwestern received Energy Star's Partner of the Year award in 2004 and 2005. In addition, you have now received Energy Star's Sustained Excellence Award six years in a row. Has it been difficult to balance profitability with implementing green measures?

Well, it's certainly challenging. But I would say it is an easy decision. The bottom line is that we are crazy about it. We are so big on sustainability – we love it! When you really cut through it all, we are really just a facilitator for two sides of the equation. We've got the investor on one side and corporate America on the other. Investors are looking for return on their investment dollar and implementing green measures are investments in a sense. Corporate America wants to pay rent for a certain environment that meets special requirements. Everyone in-between is trying to make that happen as efficiently as possible. The bottom line is that there is a keen sense of responsibility by both investors and corporate America.

I think the big momentum for sustainability is that tenants today want to be responsible, they want to protect the environment and contribute to a better world. In fact, they feel very strongly about that. Investors want their return but, from what we have found, they feel the same way as tenants in this regard. We're excited about it because we have a role as facilitators. If we can do things that are more efficient

and create more sustainability, then we're making everybody happy. We can help quantify the costs, we can help implement it, and we can help develop better-quality sustainability.

The industry is asking, "How do you get paid for it?" With a lot of the measures, you don't hear the coins jingle at the bottom of the piggy-bank. But I think you have to look at it from a long-range perspective. In order to be an industry leader, you must have a broader mission and be willing to make a difference. If you position yourself to make a difference as a facilitator and help make this happen, then you're differentiating yourself and that's simply good business. The payout is more of what you call an intangible value-add proposition. However, there a lot of immediate economic benefits from exercising sustainable practices. We're facilitating this by bringing this information to light and helping frame the choices for investors and end-users alike.

Your firm has been known to use innovative hiring practices. In the '90's you made a point to be the last stop of the interview process for new hires at your company. Is this still the case?

Yes, I sure try to be. Larry [Larry Heard, CEO of Transwestern] and I both want to be involved and enjoy being involved in this crucially important process. We have a comprehensive recruiting process. We also like recruits to come in and see our people, and we will generally have recruits meet team members around the country because we take company culture very seriously. We want our people to weigh in on new hires and we are looking for cultural compatibility, shared values, and character.

What do you look for in a job applicant?

We are a character-driven organization. Additionally, we look for very bright and capable people. They must be motivated, and want to make a difference. They must want more than just a job. We're looking for men and women who have the character, intelligence and desire to

succeed. When you put all those things together, you usually come out fine.

If you could only ask one or two questions to an applicant, what would you ask?

Because every applicant is different, we tailor the questions to each applicant differently. But one which I've enjoyed asking over the years is, "What would you like the transcription to read on your tombstone?" That is a good question because you have to boil it down to what really matters.

Do you have any advice for those graduating and entering the real estate work force this spring?

First of all, it's a magnificent time to come into the industry. There may not be a vibrant job market right now, but it is certainly improving. It is still tough sledding and we are on the early side of a meaningful recovery. But the real estate sector is very big and very powerful and it keeps getting better. There are challenging demands and needs, and a lot of value can be created in meeting those needs. From a short term perspective, it is also good because there's been a shake-out in the market. There has been a lot of dislocation which always spells opportunity.

When you see change, there is always opportunity associated with it. Find an organization, large or small, that has quality people with the highest integrity who are going to be fortifying your own strong values and will take the time to mentor you. Spend time with quality people who will spend time with you and help you learn the business. In this situation you get to learn the right way to do business while you are becoming continuously more valuable.