
Be Contrarian

Written by Joshua Schuster, Principal at Silverback Development.

Contrarian. *Noun.* “A person who opposes or rejects popular opinion”. This is important in Real Estate and Business for a variety of reasons. As you embark on your careers, consider that herd mentality is not always aimed in the right direction. I often tell my students about the lemming, a rodent found near the Arctic. The lemming has a strange migratory behavior, driven by strong biological urges, some species of lemmings migrate in large groups when population density becomes too great. In these large groups, lemmings historically have been known to accidentally attempt unsuccessfully swimming long distances (large bodies of water) and end up drowning, or even following the herd off of cliffs.

So to can be the case in Real Estate. At this stage in the business cycle, we are often hearing noise about that it’s the end of the cycle, condo prices will drop, and the market will tank; the economic environment is somewhat precarious for a few key reasons: first, land prices remain high. While transactional volume has corrected itself 25% since Q4 2016, land owners are the last to come off the perceived valuations their brokers have been feeding them for years.

Second, construction costs have not met equilibrium and continue an upward projection. Economists are seeing downward pressure on demand for construction goods and services (as evidenced by less building permit applications) drawing the conclusion that costs should dip so that contractors’ remain competitive (and busy). However, this is still not the case.

Third, the City is facing a surplus of both the multi-unit for sale and multifamily rental product. Over supply can only lead to a pricing correction, which can prove difficult in a market embracing stratospheric pricing expectations and unwavering fixed costs (land and COGS/construction). Finally, the Federal Reserve’s steadfast raising interest rates can only lead to a restriction of capital and when capital is uneasily attainable, the headwinds continue to force the economy towards a recession.

Many of these factors, especially when combined, can cause a bleak conclusion. The reality is when faced with these challenges, those participating in this market cycle need to evolve to a new era of creativity that embraces these contests, and this requires a contrarian philosophy. For example, restructure deals so that the cost of equity and debt are low to make capital

obtainable (i.e. protect downside scenarios via ground leases or joint ventures), take less leverage or negotiate with twice as many potential contractors to ascertain the most competitive pricing. Don't let market fears scare your decision-making process.

Similar fears can haunt you in career-making decisions. Should I take that new job? Should I start my own company? Can I afford the risk? I think the answer is YES. Anything that challenges you and forces you into an uncomfortable situation can only lead to personal growth. For example, I started my first company at 26. Scared as hell, I embarked on a journey that required concentration and discipline. I was sober for three months, woke up at 5 AM daily, and stopped at nothing to ensure that I executed on my business plan with precision. My first project was a 14-story renovation that I capitalized with two (high-net worth) brothers and a \$30,000 loan from a family friend. The deal structure had a minimum yield and return of capital threshold to their investment (the majority of the capital), and then the balance of the upside would be paid to me. Fortunately, the deal was a success and helped pave the way for my career. Some would say that my decision to pursue this entrepreneurial path was risky and the wrong decision. Again, be contrarian. Now my company, Silverback Development, with a 10 person team, controls a \$1.7 billion pipeline nationally and is backed by a \$50 million capital commitment. This was only possible by thinking positively and differently.

ABOUT SILVERBACK

Silverback Development is a tactical and forward-thinking real estate developer, owner and investor, employing a pioneering approach to the creation of architecturally distinct properties that enrich the landscape of urban markets. The firm deploys a dynamic three-pronged investment approach to development that includes ground-up new development, adaptive reuse and leading partnerships with third party developers and owners. Silverback spearheads a pipeline of more than \$1.7 billion including all asset classes with leading investors and financial institutions allowing for the swift execution of high-quality deals and partnerships. For more information, visit www.slvr.com.