CEO ADVISORY REPORT

The Calls That *Move* the Firm

Five steps before your next big call

How real estate leaders make the few decisions each year that matter most, with more clarity, fewer regrets, and a team that commits.

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Inside

The ideas here draw on seven decades of decision research and on the practice of the world's most successful investors. Framework names are kept to the sources; the page is for the decision in front of you.

THE SHORT ANSWER

Big decisions go better when you follow five steps, in order.

The lender wants a $6 million paydown to extend the loan. Your team has a model, a recommendation, and a deadline. Everyone in the room has done this before. That is exactly when a good firm makes an expensive mistake.

Research on thousands of business decisions points to the same conclusion. The quality of the process around a decision matters far more than the quality of the spreadsheet. How you frame the question, how many real options you compare, whether people can disagree before the boss speaks, and whether you set exit conditions in advance: these predict results. Five steps cover all of it.

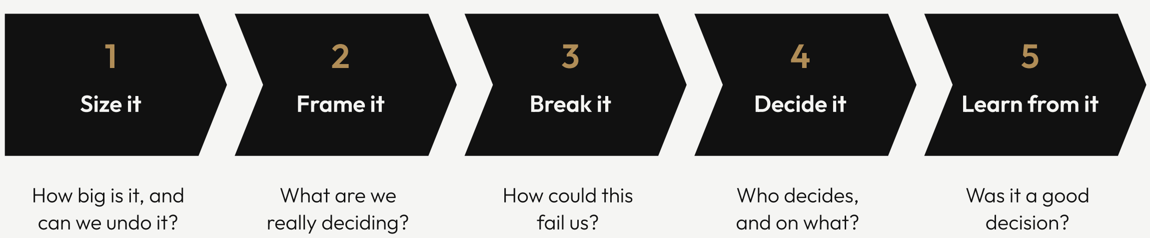


Figure 1. The five steps. Keep them in your head in this order: Size it, Frame it, Break it, Decide it, Learn from it.

WHAT THE RESEARCH SHOWS

Process beats analysis.

6x

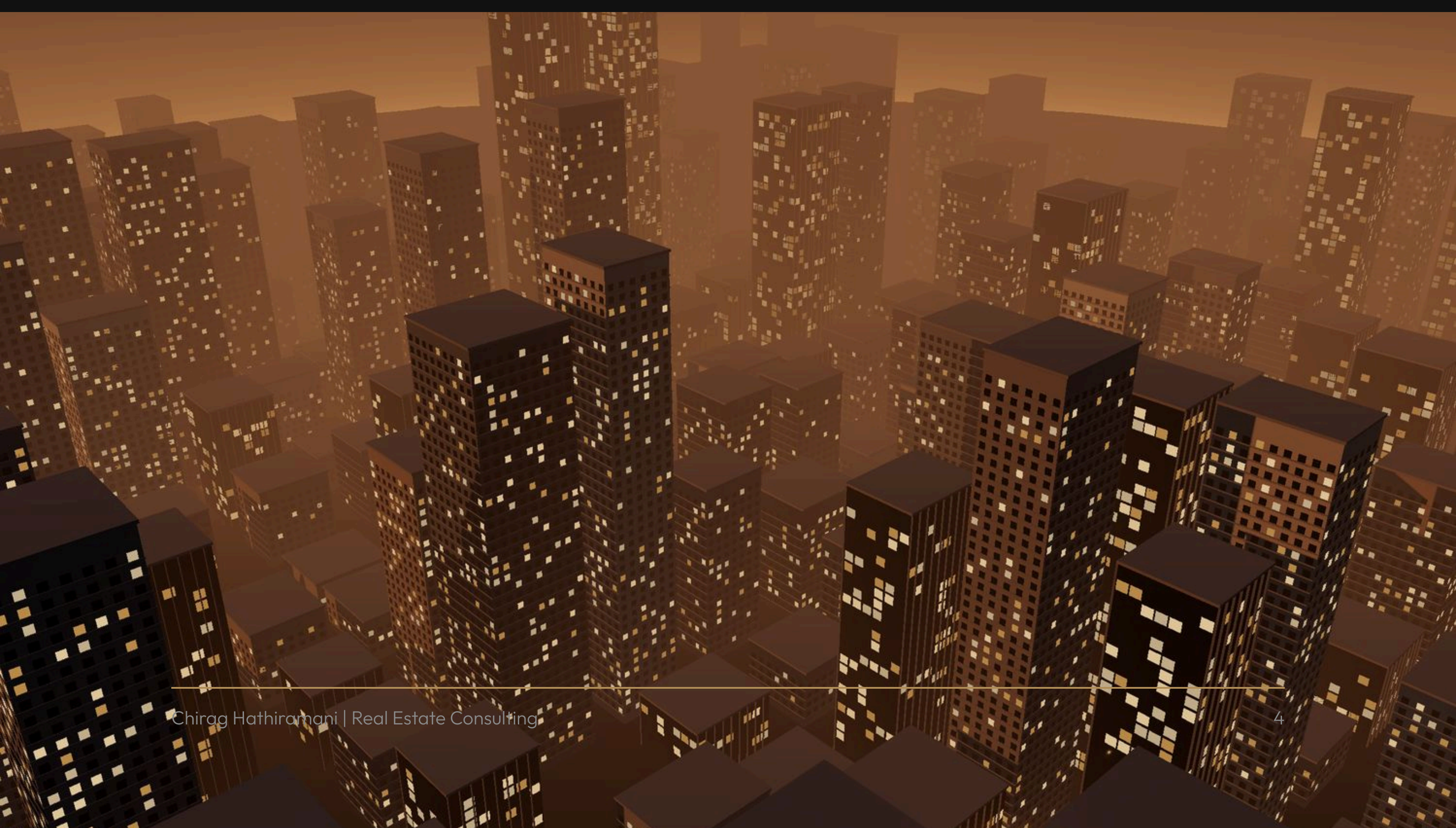
How much more the decision process mattered than the depth of analysis, across 1,048 major company decisions studied by McKinsey.

52%

Failure rate for "yes or no" decisions, against 32% when leaders compared two or more options, in Paul Nutt's studies of real organizational decisions.

25%

Performance gain from structured reviews after the fact, across 46 studies analyzed by Tannenbaum and Cerasoli.



WHY GOOD FIRMS MAKE BAD CALLS

Experience does not protect you. In some cases it makes things worse.

Real estate professionals are among the most studied decision makers in the research, and the findings are humbling. In one classic experiment, experienced agents valued the same house differently depending on the list price they were shown. Only about one in five admitted the list price had influenced them.

Owners facing a loss against their purchase price ask for more and sell more slowly, professional investors included. Appraisers adjust too little from their own prior values. Lenders who made a loan are the last to write it down. None of this comes from a lack of intelligence. It is how people behave when money, pride and a sunk cost are all in the room.

Where this shows up in a real estate firm

PROTECTION

The rescue that keeps needing more

Each capital call is small next to what is already in. Nobody asks whether they would invest this dollar fresh.

PROTECTION

The hold that waits for basis

The asset is kept because selling would lock in a loss, though the market does not care what you paid.

STABILITY

The pro forma everyone believes

Lease-up, exit and cost assumptions come from the deal team, with no check against how similar deals went.

STABILITY

The committee that agrees

The founder speaks first. Everyone else refines the founder's view. Dissent arrives after closing.

GROWTH

The new strategy on momentum

A new fund, market or product launches because the last one worked. Nobody wrote down what would have to be true.

GROWTH

The AI project nobody can measure

Money is spent and activity is visible, and no one agreed how success would be counted or when to stop.

01

STEP ONE

Size it: decide how much process the decision deserves.

Most decisions should be made quickly by the person closest to them. A few deserve your full attention. Two questions sort them: how much is at stake, and how hard is it to undo? One question sits above the others: could the worst case end a fund or the firm? If so, set hard limits first. No return justifies a risk you cannot survive.

> **QUESTIONS FOR THE CEO**
>
> - What is at stake, and can we undo it?
> - Could the worst case end a fund or the firm?
> - Has anyone here made this exact call and seen how it turned out?
> - Who owns the decision, and by when?

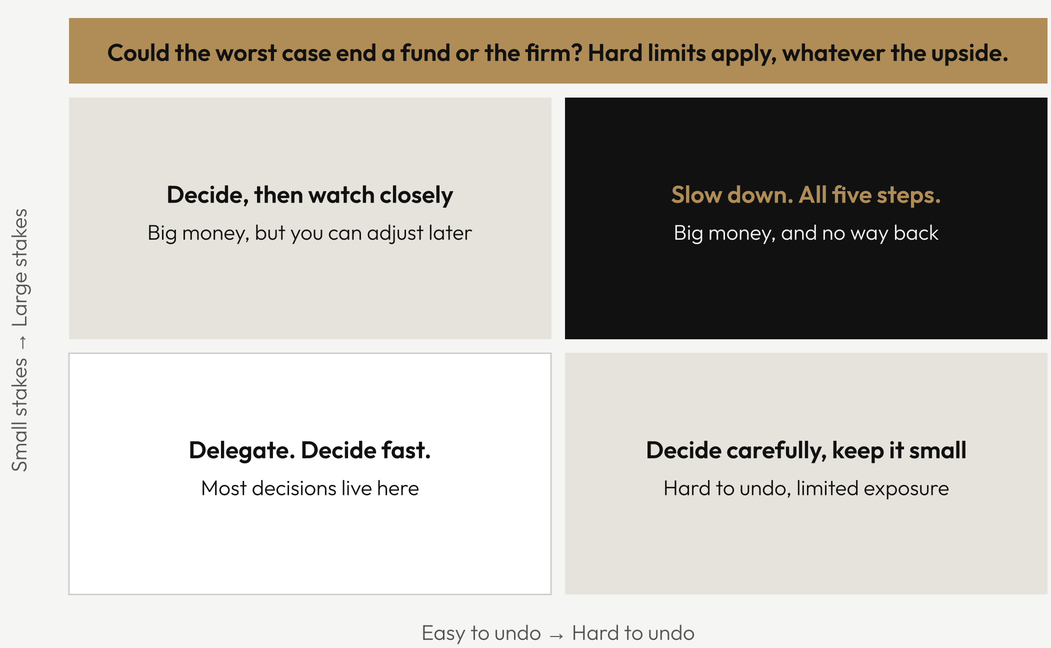


Figure 2. Sort every major decision by stakes and reversibility. Only the top right gets the full process.

02

STEP TWO

Frame it: answer the right question, with real options.

The most common way big decisions fail is also the least visible: the question is framed as yes or no. When leaders compare two or more real options, failure rates drop sharply. For each option, ask what would have to be true for it to be right. Then check those conditions against how deals like this actually turned out, for you and for the market, before adjusting for what makes your situation different.

> **QUESTIONS FOR THE CEO**
>
> - What are at least three real options, including doing nothing?
> - What would have to be true for each one?
> - How did similar situations actually turn out?

Figure 3. Widen the options first, then narrow to the few conditions that decide the choice.

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STEP THREE

Break it: try to break your favorite option before the market does.

Once a team likes an option, it stops looking for reasons it could fail. Ask everyone to imagine it is two years from now and the decision went badly, then write down, alone, why. Size the severe downside and ask whether the fund and firm can absorb it. Then apply the fresh money test: if you did not already own this asset, would you put this dollar in today, at this value? Finally, set exit conditions while everyone is still calm.

> **QUESTIONS FOR THE CEO**
>
> - Why did it fail? Each person writes alone first.
> - Can the fund and the firm survive the worst case?
> - Would a new investor put fresh money in at this price?
> - What must we see, by when, and who calls it?

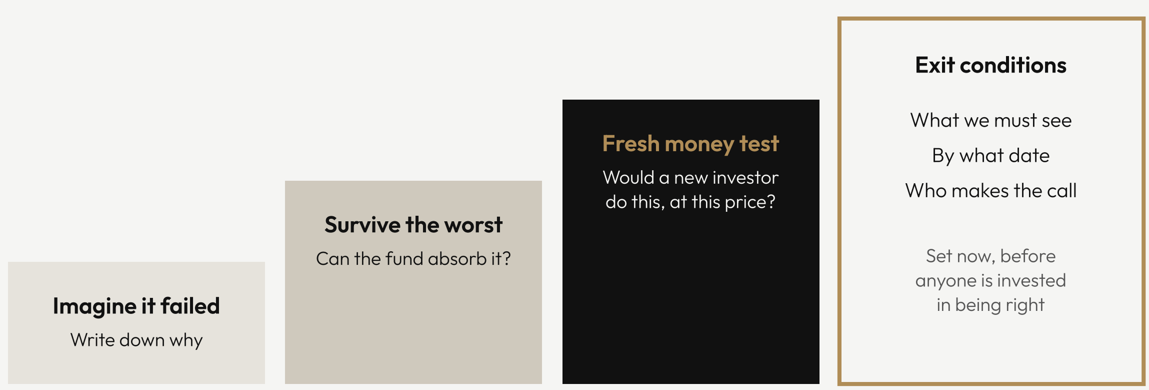

Figure 4. Three tests, then exit conditions agreed in advance. The exit conditions protect you from the next capital call.

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STEP FOUR

Decide it: collect honest views before the discussion starts.

Committees often talk themselves into agreement. The first strong opinion sets the anchor, usually the most senior one, and what members know privately never gets said. Before the meeting, each decision maker scores the same handful of factors alone, in writing, with a provisional vote. You speak last. Where scores differ by two points or more, that gap becomes the agenda. Name one person who decides, and write down what you decided and why.

QUESTIONS FOR THE CEO

- Who holds the decision?
- Did everyone score alone before the meeting?
- Did the CEO speak last?
- What did we decide, expect, and when do we review?

Scored alone, before the meeting (1 to 5)	Sponsor	Partner B	Partner C
Market	4	4	3
Price we are paying	4	2	2
Capital structure	3	3	3
Team and execution	4	4	3
Survives the downside	4	3	2

Dark rows: a gap of two points or more. That gap becomes the meeting agenda.

Figure 5. Independent scores surface real disagreement. Here, two partners doubt the price the sponsor believes in.

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STEP FIVE

Learn from it: grade the decision separately from the result.

Good decisions sometimes turn out badly, and poor ones sometimes get lucky. Firms that judge only by results reward luck and punish sound judgment. On the review date, ask four questions: What did we expect? What happened? Why the difference? What will we keep, and what will we change? After a year, the firm has its own record of which assumptions run optimistic and whose calls prove right.

> **QUESTIONS FOR THE CEO**
>
> - What did we expect, and what happened?
> - Was the process sound given what we knew?
> - What will we keep, and what will we change?

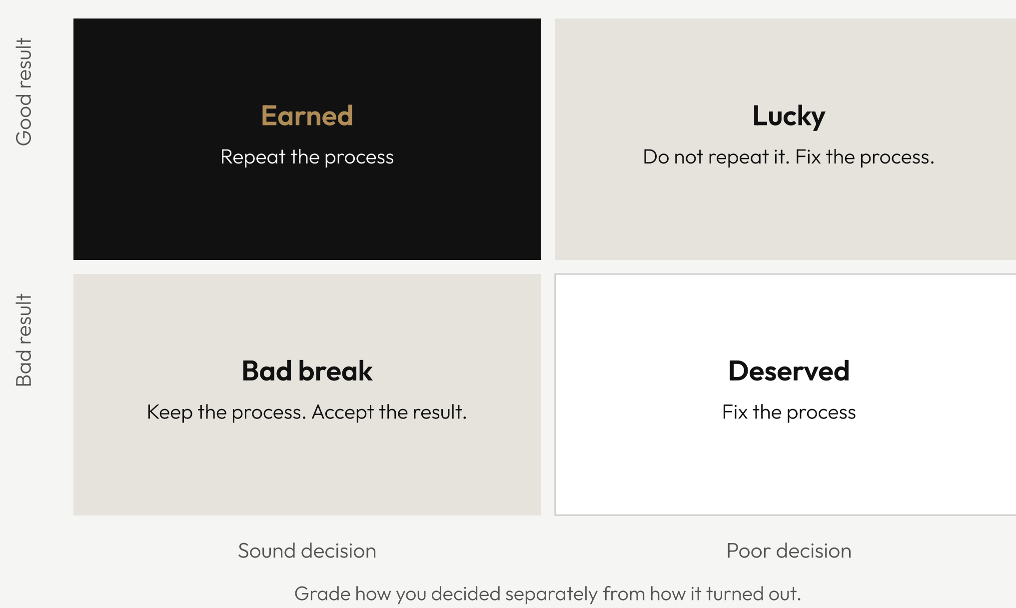


Figure 6. Four outcomes. Only one tells you to fix the process, and it is not always the one with the bad result.

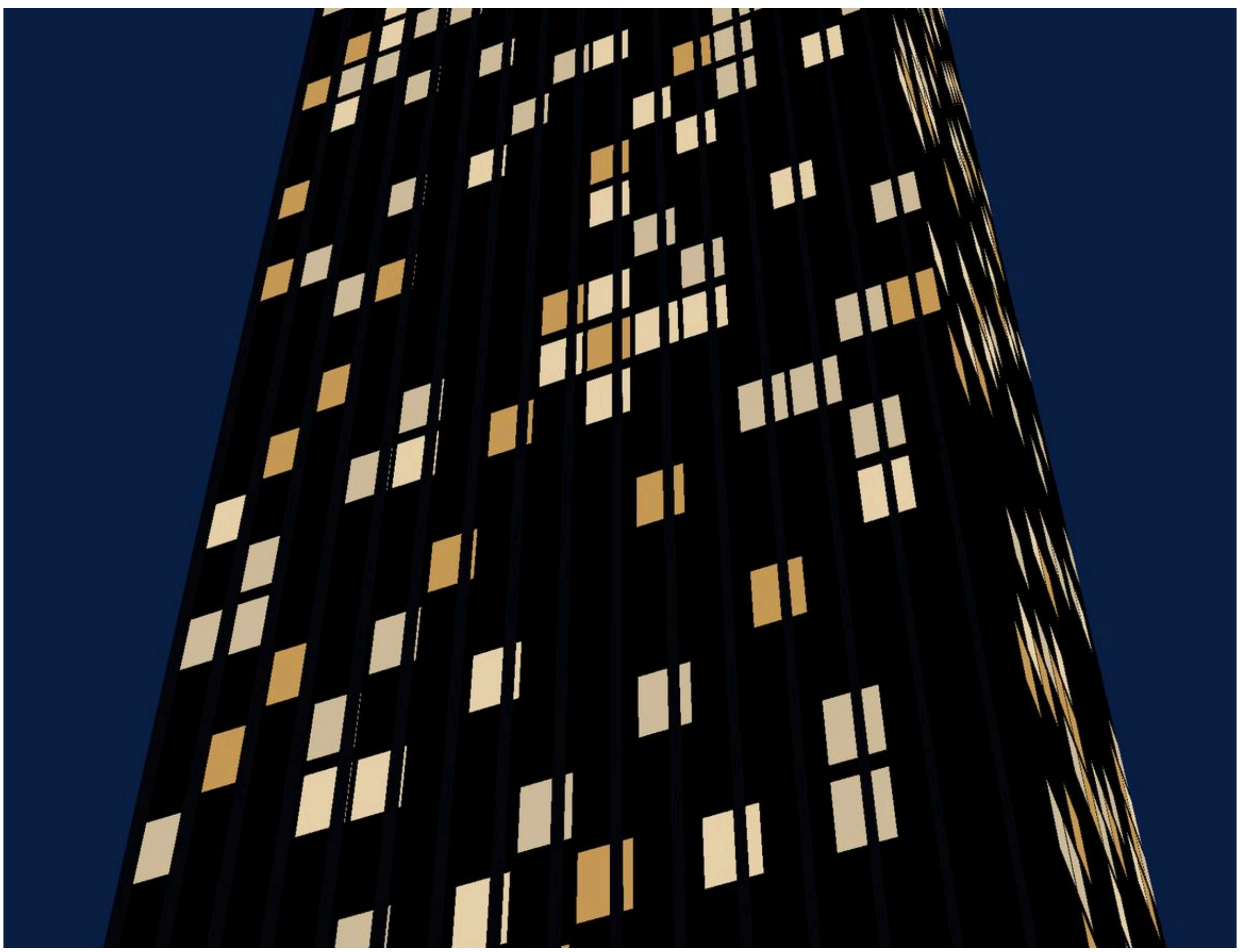
WHAT GREAT INVESTORS WOULD ASK

The questions the world's best investors ask.

The research explains how decisions go wrong. The best investors of the last seventy years learned the same lessons with their own capital, and added judgment the studies miss: about markets, about people, and about price. Their ideas fit inside the five steps.

Howard Marks argues that a good decision needs a view that differs from the consensus and is right, since whatever everyone believes is already in the price. Warren Buffett and Charlie Munger judge every commitment against the next best use of the same dollar, and look first at who gains from each answer. Seth Klarman insists on a price low enough to protect you when you are wrong. Ray Dalio weighs each view by that person's record on similar calls.

John Templeton bought at points of maximum pessimism. George Soros searched every thesis for its flaw. Stanley Druckenmiller sized bets by conviction and protected capital first. Sam Zell made his name buying when others were forced to sell, and always started with the downside.



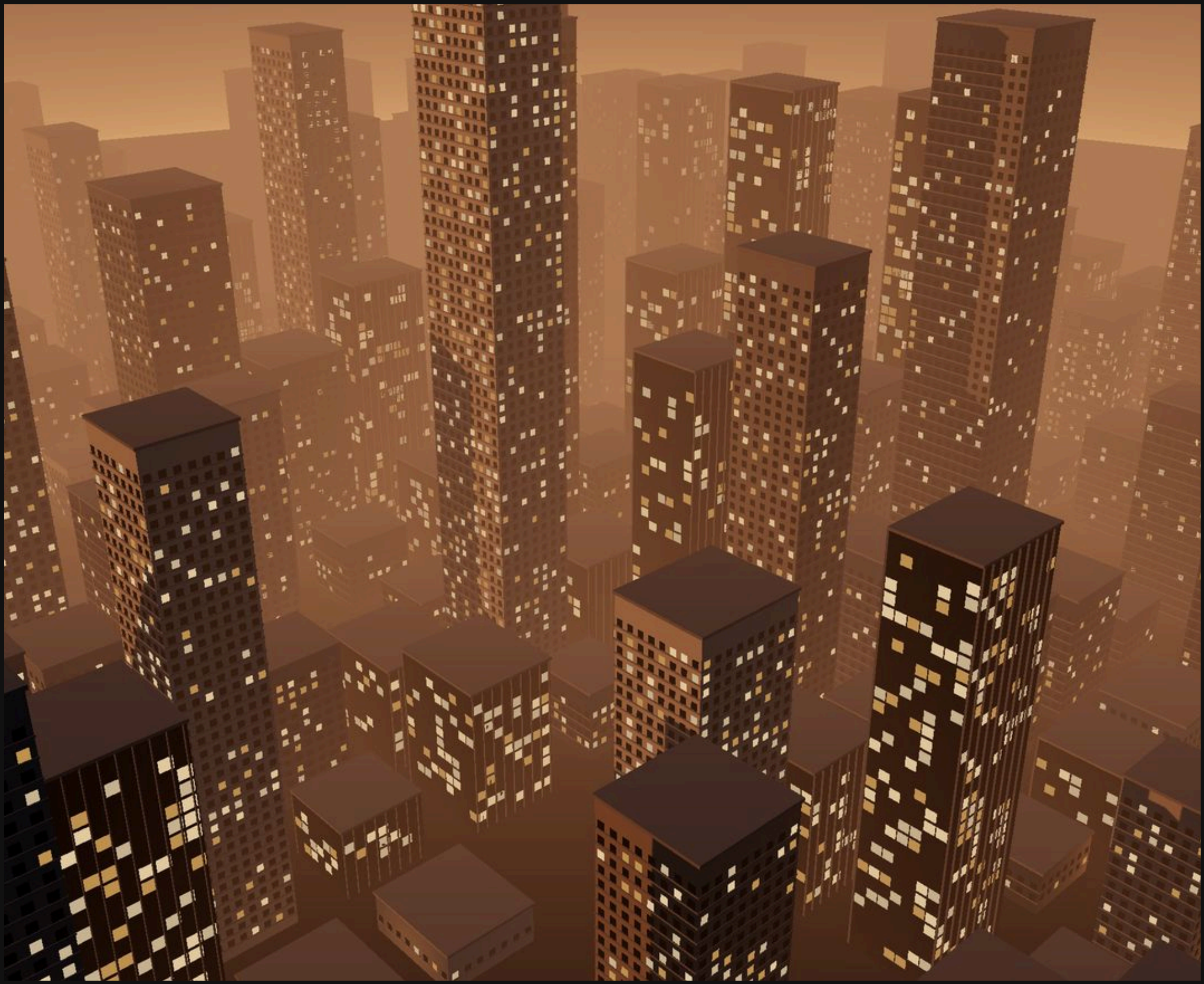
Their questions, step by step, follow on the next page.

WHAT GREAT INVESTORS WOULD ASK, BY STEP

Step	Investor	The question they would ask
Size it	**Warren Buffett**	Is this inside our circle of competence, or are we guessing?
Size it	**Sam Zell**	If this goes wrong, do we have the liquidity to stay in the game long enough to be right?
Frame it	**Howard Marks**	What does everyone else already believe, and why is our view different and better?
Frame it	**Howard Marks**	Where are we in the cycle? Are lenders and buyers being careful or careless right now?
Frame it	**John Templeton**	Are we buying when others are giving up, or when everyone agrees it is a sure thing?
Frame it	**Warren Buffett**	Compared with what? Does this beat our next best use of the same dollar?
Break it	**Charlie Munger**	What would guarantee failure here, and are we doing any of it?
Break it	**George Soros**	Where is the flaw in our thesis? Assume there is one and find it.
Break it	**Seth Klarman**	Is the price low enough that we come out fine even if we are wrong?
Decide it	**Charlie Munger**	Who is paid to want which answer, and how is that shaping the recommendation?
Decide it	**Stanley Druckenmiller**	If we are right, is the bet big enough to matter? If we are wrong, is it small enough to survive?
Decide it	**Ray Dalio**	Whose record on this kind of call is best, and how much weight should that view carry?
Learn from it	**Ray Dalio**	What did the pain teach us, and what rule will we write down so it does not happen twice?
Learn from it	**Warren Buffett**	What mistake have we not admitted yet, including the ones we made by doing nothing?

A note on evidence

These are lessons from practice, tested by decades of results rather than by controlled studies. Where they overlap with the research, on avoiding ruin, testing for failure, inviting dissent and reviewing mistakes, the case is strongest.



THE FIVE STEPS AT WORK

Three decisions, one from each kind of problem.

Many hard calls on a CEO's desk quietly depend on a forecast: that rates will fall, that the market will recover, that investors will wait. The five steps bring that forecast into the open and test it before money is committed.

The firms and figures that follow are illustrative, built from situations common in firms of $500 million to $5 billion.

PROTECTION: DEFENDING CAPITAL

Pay down the bridge loan, or change course?

A Texas firm bought a 280-unit Class B apartment property near the top of the market for $52 million at a 4.5% cap rate, financed with a $40 million floating-rate bridge loan. The rate cap has expired and the loan matures in 90 days. The lender will extend for 12 months if the firm pays down $6 million. The deal team wants to take the extension and refinance once rates come down.

Step	The question	What the firm found
Size it	How big, and can we undo it?	At today's cap rates the property is worth about $41.6 million, close to the loan balance. The firm's $16 million of equity is nearly gone on paper. New money is hard to get back. Full process.
Frame it	What are the real options?	Pay down $6 million and extend. Refinance now into fixed-rate agency debt and fill the gap. Sell now and pay off the loan. Negotiate a discounted payoff or hand back the property.
Frame it	What would have to be true?	For the extension to work: rates fall enough within 12 months for a refinance to close the gap. The team checked that hope against what bond markets and the Fed were signaling. Neither pointed to relief within a year.
Break it	How could it fail? Would fresh money do this?	The failure story: rates stay high, the extension runs out, and the firm faces a larger gap with $6 million more at risk. A fixed-rate agency loan today sizes near $28 million, leaving a $13 million gap. An outside investor would fill it for about a 14% preferred return. The $6 million paydown buys a year of hope. The $13 million buys a solved problem.
Decide it	Where do we disagree?	Scored alone, the deal lead rated the chance of rate cuts 4 out of 5. The two other partners rated it 2. The meeting moved from forecasting rates to surviving them.
Decision	What did we decide?	Decline the extension. Refinance into fixed-rate agency debt now, filling the gap with $9 million of preferred equity from an outside partner and $4 million from the fund. If the refinance is not locked within 60 days, market the property for sale.
Learn	What will the review test?	Whether the partners' view of rates held up, and whether the firm's last three extension requests all assumed rate cuts. If so, future plans will be underwritten at market rate expectations plus a stress case.

Return capital now, or keep waiting?

A $400 million firm's second fund has already used its one-year extension. Five properties remain, and the family offices and advisors who invested want distributions. Bids are coming in 8 to 12% below the last appraisals. The founder proposes a second extension to wait for a better market.

Step	The question	What the firm found
Size it	How big, and can we undo it?	An extension is easy to announce and hard to take back with investors. The real stake is trust from the people who will fund the next deal. Painful, and not firm-ending. Full process, because damaged relationships do not reverse.
Frame it	What are the real options?	Extend again and wait. Sell all five at today's bids. Sell the weakest and hold the best. Give investors a choice: cash out now at an independent valuation through a buyer of fund stakes, or roll into a new vehicle that holds the strongest assets.
Frame it	What would have to be true?	For waiting to work: values recover within two years. The team compared that hope with what bond markets implied for borrowing costs and cap rates. The market did not share the founder's optimism. Waiting was a bet against the market's own forecast.
Break it	How could it fail? Would fresh money do this?	The failure story: the firm extends, rates stay high, two properties need capital, and investors who wanted out receive a capital call. Word reaches prospects for the next fund. Asset by asset, at today's bids, the firm would buy three of the five again. It would not buy the other two.
Decide it	Where do we disagree?	The founder scored "the market recovers soon" a 4. The partners scored it 2. Everyone scored investor trust as the firm's most valuable asset, which reframed the choice.
Decision	What did we decide?	Sell the two properties the firm would not buy today. On the other three, give investors the choice: cash out at an independent valuation, or roll into a new vehicle with a firm sale deadline of three years. Hire an outside valuation firm so the price is fair to both groups.
Learn	What will the review test?	How many investors chose to roll over, as a direct read on trust. The firm will also write a liquidity plan and sale deadlines into the terms of every future fund.

Launch a fund to buy distress, or move faster another way?

A $1.2 billion firm has always raised money one deal at a time. Distress is creating the best buying opportunity in years: owners who bought apartments near the peak with short-term floating-rate debt need to sell. The founder wants to launch a $250 million fund to buy it.

Step	The question	What the firm found
Size it	How big, and can we undo it?	A fund is a ten-year public commitment, and a failed raise is visible. The worst case hurts the brand and the investor base, and the firm survives it. The bigger risk is missing the window. Full process.
Frame it	What are the real options?	Launch the $250 million fund now. Raise a $100 million fund around one anchor investor. Form a standing partnership with one institution to buy distressed deals now. Keep raising deal by deal.
Frame it	What would have to be true?	For the full fund: raise the money before the opportunity passes. The record is sobering. First funds usually take far longer to raise than planned, and investors concentrate their money with established managers. The newcomers who succeed tend to arrive with an anchor investor, a live portfolio, or proven operations.
Break it	How could it fail? What must be true of our people and systems?	The failure story: a year and a half in, the fund is half raised, the best distressed deals have traded, and the founder spent the window on the road. On readiness: the track record is auditable, fund reporting is not ready, and no one owns investor relations. Investor diligence on operations can stop a raise before strategy is discussed.
Decide it	Where do we disagree?	The founder scored investor demand a 5. The partners scored it 3. Everyone scored operational readiness lowest, and everyone scored the buying window highest, which pointed to speed through a partner.
Decision	What did we decide?	Sign a standing partnership with one institution to buy distressed apartments now, while hiring an investor relations lead and a fund controller. Use that live portfolio as the foundation for a first fund in 12 to 18 months. If no partner signs within six months, raise deal by deal for the first two purchases.
Learn	What will the review test?	Whether the partnership captured the window, and what institutional investors focused on in diligence. That list becomes the checklist for the first fund.

WHERE TO START

Before any big call, settle three questions.

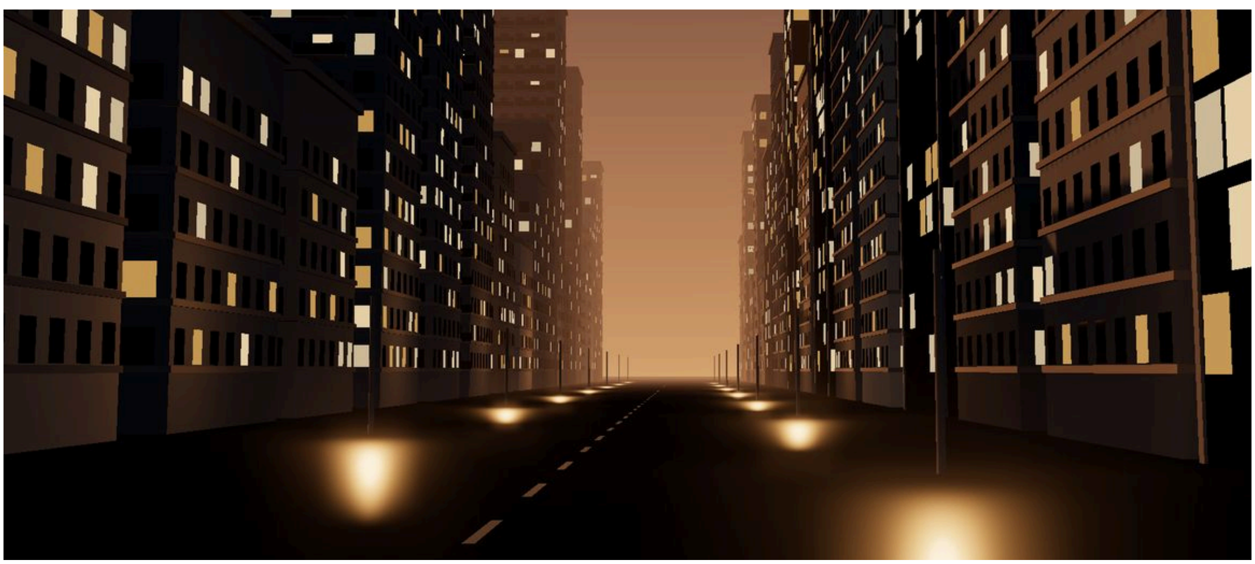
You will not always have time for every step. When you do not, these three questions come straight out of steps two and three, and they settle most big decisions in a real estate firm.

1. What does the record say usually happens in situations like this, and why should we expect to do better?

2. If this goes badly, what do we lose, and can the fund and the firm absorb it?

3. Would we make this commitment today, with fresh money, at today's value?

For growth decisions, swap the third question for this one: what would have to be true about our people and systems for this to work, and is it true today?



The pattern across the three cases

Each started as a yes or no proposal, and each ended with an option that only appeared once the team widened the choices. In the first two, the original plan quietly depended on a forecast the market did not share. Each came with a condition for changing course, set in advance.

PUTTING IT TO WORK

What to change, and when.

Next meeting

This month

1. Ask each committee member for written scores and a vote before the meeting.
2. Speak last.
3. Require at least three options on every major decision.

This quarter

By day 90

1. Add one page to every memo: how comparable deals actually performed.
2. Set exit conditions on every rescue or loan modification.
3. Add a reviewer who did not originate the deal.

This year

Months 6 to 12

1. Keep a decision log with expectations and confidence levels.
2. Hold a 30 minute review on each decision's review date.
3. Use the firm's own record to adjust its assumptions.

The five steps, on one card

1 **Size it.** How much is at stake, can we undo it, and who owns it?

2 **Frame it.** What are three real options, what would have to be true for each, and what does everyone else already believe?

3 **Break it.** How could it fail, can we survive that, and would fresh money do this?

4 **Decide it.** Scores in writing first, the CEO speaks last, one name decides, and incentives are on the table.

5 **Learn from it.** Grade the decision apart from the result, and feed what you learn into the next one.

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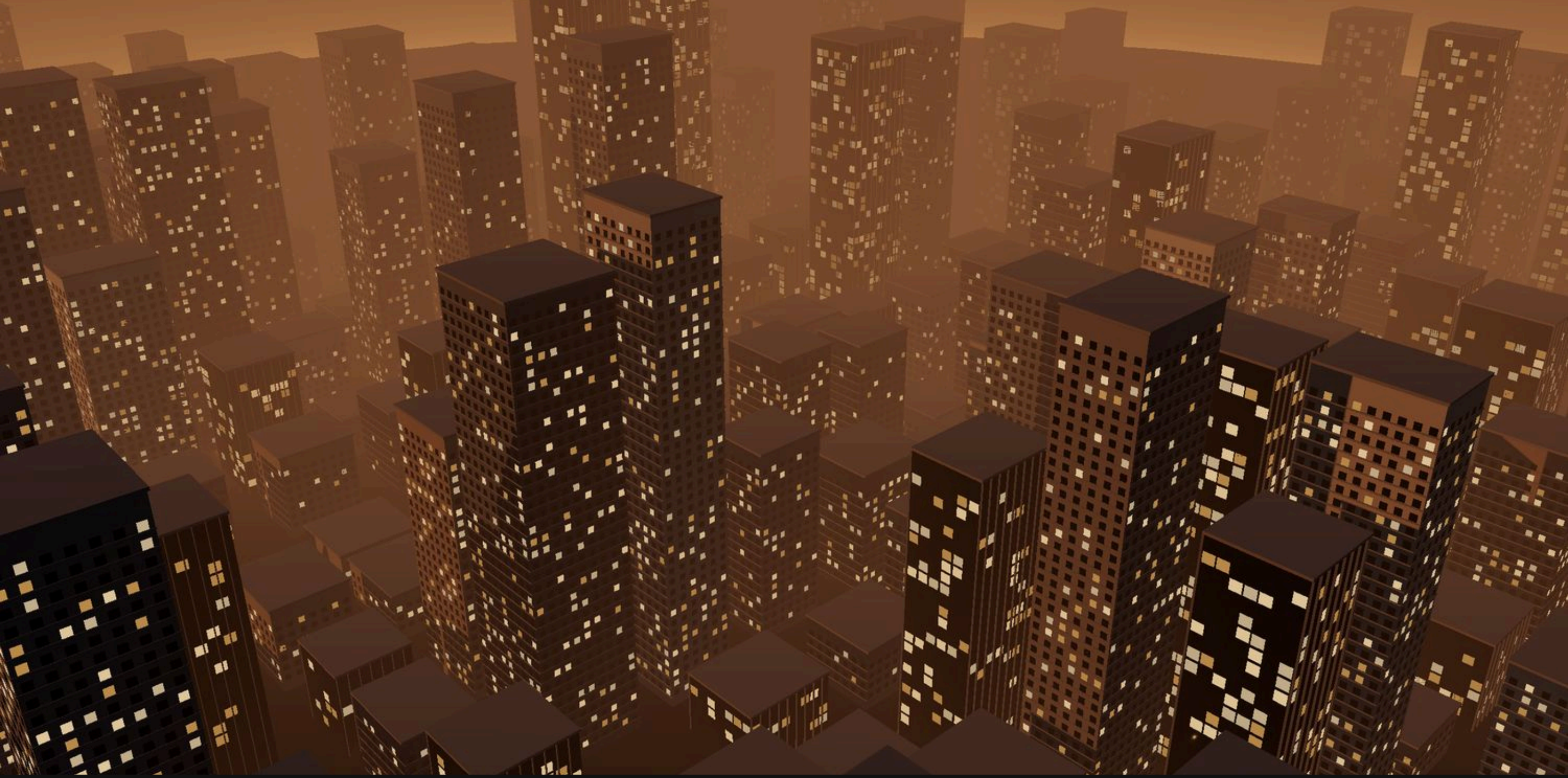

BRING ONE IMPORTANT DECISION

A second set of eyes on the calls that move your firm.

If you lead a real estate firm between $500 million and $5 billion and a big call is on the table this quarter, book a 25 minute conversation. Within seven days you receive a written read on the decision: the situation, the three questions to settle first, and a recommended path your partners can read in ten minutes.

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