

## **Duncan Matteson: Elder Statesman of Real Estate**

By Michael Shields, CCIM

A big man with an imposing voice can be intimidating, but couple that with a powerful drive and strong opinions and you get the idea of what a conversation with Bay Area real estate icon Duncan Matteson might be like. We're in only the first minute of our interview, and Duncan wastes no time in getting right to the point: "The government and therefore lenders made far too much money available on too easy terms. During that period, we sold a lot of buildings at 4.5 to 4.75 cap rates, which is insanity for anybody to pay. I have a lot of feelings about how the industry got overpriced," he says. "I'll tell you what I feel strongly about and the opportunities I see." And so goes the rest of our dialogue.

Measured by his accomplishments, Duncan is more than just an impressive fellow. He's a stalwart of the industry who has built thousands of apartment units and been instrumental in the creation of the multifamily industry in the Bay Area and beyond. Along the way, Missouri-born Duncan has followed personal, political and philanthropic callings that have left lasting imprints.

### The Start of Something Big

Duncan began his real estate career in 1964, after five-and-a-half years as a securities broker in the Palo Alto office of an NYSE member firm. He was hired as a sales manager by some friends who had three real estate corporations: a land development company, a building company and a sales and leasing company. These three corporations encompassed everything from small shopping centers and residential tract homes to office and apartment developments. In this environment, Duncan learned about what would become his lifelong industry. But after three years of working seven days a week, 14 hours a day, and logging more than 60,000 miles of annual travel in the Bay Area alone, Duncan was glad to accept an offer to become a partner with some friends in a Palo Alto real estate firm. Duncan stayed with this firm until 1971, when three of these partners formed another organization: Stanford Financial. Based in Palo Alto, Stanford Financial soon established itself as a well-respected real estate investment firm with some noteworthy principals. But it wasn't until 1978 that Duncan opened what would be the foundation of his real estate empire, the Matteson Investment Corporation.

Originally launched as an investment and development corporation, Duncan's firm built thousands of apartments and brought in property managers to oversee the units. After 31 years, this once small firm has grown into the four Matteson Companies that exist today, with about 30 employees in the Bay Area and numerous property managers at sites throughout the five western states. The Matteson companies include Matteson Realty Services, Inc., which handles investment brokerage, property and asset management, and accounting for the various Matteson entities; Matteson Development Partners, which oversees all development activities; JB Matteson Institutional Capital Partners, an organization working exclusively with institutional investors to develop and manage projects; Matteson Real Estate Equities, Inc., which holds and handles Duncan's personal investments; and Matteson Management Company, a personnel management entity.

Duncan's recount of projects he's been a part of and the friends and colleagues he's worked with is like a roster of "who's who" in commercial real estate. To say Duncan has well established industry connections can't convey the more than four decades of influence and knowledge he has amassed during a period in which the Bay Area experienced a tremendous amount of growth. Duncan grew along with the market and at 75 is not only considered one of the largest players in the Bay Area but also owns property in the Central Valley, Southern California and four additional western states: Arizona, Nevada, Washington and Oregon.

Duncan is vague about the number of apartment units he owns. "I have developed, owned and managed thousands of apartment units – *thousands and thousands and thousands and thousands,*" he says. "An exact number is somewhat meaningless."

What isn't meaningless is a philosophy best summed up in Duncan's own words: "If you don't love the business you're in, you shouldn't be in it. If you're not willing to throw away the time clock and just do whatever it takes to make it a success, whatever the endeavor, then you shouldn't be doing that. I'm at that office every day—although I do get out and play a little more golf than I used to do—but I'm very actively involved in the companies. Because I love it." Duncan's close friends joke that they'll be taking his body out of the office with a phone still in one hand trying to close a deal.

#### The Business of Life

"When life has been good to you, you've got to give back," says Duncan. And so while his business is not just his vocation, it's his avocation, Duncan's accomplishments reach far outside his office door.

For many years preceding a merger with Wells Fargo Bank in October 2007, Duncan was Chairman of Greater Bay Bancorp, the region's largest independent bank holding company for 11 Bay Area banks and other financial services companies with assets of nearly \$8 billion. Along with his family, Duncan has also been very active in influencing the direction of the multifamily housing industry. He is a past chairman of the National Multi-Housing Council, a Washington, D.C. association consisting of developers, owners and managers of apartment and condominium properties in the U.S. He's also one of the founding fathers of the Housing Industry Foundation, a non-profit organization providing one-time grants, loans and other assistance to help individuals and families remain in their homes or find stable housing.

Duncan is a past chairman of the Board of Trustees for the Palo Alto Medical Foundation, for which he has served on the board for 23 years. He has been actively involved in fundraising for the American Cancer Society, March of Dimes Boys and Girls Clubs of the Mid-Peninsula, Stanford University and Missouri University, his alma mater. He has also served as an elder within his church, where he has been an active member for 29 years, and along with other members helped to found the Ravenswood Education Foundation, a fund for the betterment of school children in East Palo Alto.

Politically, Duncan has been involved for more than 40 years at the national, state and local levels. His accomplishments include appointments to positions in the State Finance Committee within the administrations of both California Governors George Deukmejian and Pete Wilson, as

well as membership on the Executive Committee of the Bay Area Council, a business-sponsored public-policy organization that proactively advocates for a strong San Francisco Bay Area economy.

### Thoughts From the Elder Statesman

It doesn't take Duncan long to replace discussions of his accomplishments with a desire to talk about real estate, especially in today's market. "Real Estate is all about timing," he says. "Don't jump in when people are paying ridiculous prices for properties. Be ready, have courage and jump in when times are like they are now. The investors—whether it's the stock market or real estate—who always win in the end are those that have the courage of their own convictions. When other people are ready to sell and are overly anxious to sell, and the signs seem to be good, the courageous buy quality at cheap prices."

Duncan continues, "When things got out of hand a few years ago, we sold a 300-unit apartment property in the Oakland hills for \$81 million. Think that one over! Someone was foolish enough to pay us an exorbitant amount for it. We sold a bunch of apartment units when people were paying foolish prices. The optimists always win if they don't hold on to things when people are paying indefensible prices for properties—particularly multifamily units."

Duncan's perspective is born out of 44 years of experience and five recessions, but it is this recession he believes the most troubling. "The financing limitations being placed on people are quite difficult," He laments. He's optimistic, though, and thinks the banks will work it out, once they get their balance sheets in order. "This downturn will have a positive affect in that banks won't be so greedy in the future. They will make loans based on common sense and careful analysis, and that will be good for everybody because it keeps the weak players out. It's the weak players that will destroy the market."

In the last few years, when the market was at its peak, Duncan's company sold apartments at rates that were "out of sight." They reinvested the equity in grocery anchored shopping centers, office properties in Seattle, and apartment properties in Portland. "Owning apartments in the Bay Area at 4.5 to 5 percent cap rates became foolish," says Duncan. "Now it's time to buy back again."

He is cautiously optimistic on the economy. While he thinks the recession will last for another six to nine months, he believes things will settle down and gradually get better. He believes it's "selectively" a good time to buy, particularly for infill land on the Peninsula, and encourages investors to use trusted brokerage firms to help you evaluate opportunities and complete your due diligence, which he says far exceeds anything that was required years ago. "Ally yourself with a top broker in the area, tell them what you're looking for and have them tell you why you should be there. Then have them bring you good opportunities." For example, Duncan believes there is going to be a real demand from 2011 on for new, good quality apartments, "but there are not going to be any around because no one's building them right now." He's putting his money where his mouth is, with three development properties currently in the entitlement process and ground breaking scheduled for next spring or summer in time for a mid-2011 opening.

Here's where Duncan gets bullish, "By 2011 to 2012, there will be a large resurgence in the apartment market. Owners with older properties that were built in the 60s only have two choices: renovate the units to bring them into the 'new world' or let other people buy them." He feels particularly strong about smaller properties, "I've always smiled at the ridiculous prices people pay for small units. They don't make sense. They don't pencil out. But some people can buy them, rent them out for unbelievable prices and then sell them at the right time. They're smart at the way they turn them over." He cites two experts (and previous profile subjects) in this area, Denny Levett and Tod Spieker.

Having done "every dirty job in the business," Duncan again reverts to the philosophy of loving what you do, especially when it comes to smaller properties where owners without management companies must do it all. "If you don't really like it and you're not really interested in learning what goes on at your complex, you shouldn't be doing it." Whether in a recession or not, he stresses that owners must spend more time managing their units, finding ways to make them look nice, if they expect to bring in more income. If an owner has less than 40 units and doesn't take an active, cheerful role in doing or at least overseeing the operations of the property, Duncan feels they should sell the units and put the money in a successful Real Estate Investment Trust. He encourages owners with larger properties (with hundreds of units) to hire a large management company and benefit from their top-notch personnel, systems and economies of scale.

In either scenario, Duncan underscores his belief that the only people who should be in this industry are those who are very resilient and who are not easily discouraged. "It's a very unique business because it involves a lot of money, real attention to detail, salesmanship, resiliency and a heavy dose of optimism," he concludes. "The people who love the business, are willing to put the time into the business and are willing to gain the necessary experience will be successful. There's no substitute for any of this." And for someone who's been on this ride for 45 years, he would know.

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