

Oral History Interview

with

WALLY NAYLOR

October 28, 2008  
San Francisco, Cal.

By Michael R. Adamson

Adamson: You have an interesting background. The CV I got from Renate [Kofahl] states that you majored in biology.

Naylor: Yes, I did.

Adamson: So tell me how you got involved in construction and building.

Naylor: I actually had been working with my tools for many years, long before I got to school, but ended up paying my way through college, working as a laborer and then a carpenter in the trades, and once I got out of school, realized that biology and going into medicine wasn't my passion, that perhaps the building side was. I kind of went back to the guy that I was working for in Aspen, Colorado, and said, "I'd like to come inside. I've got all this education and should do something with it." So I did, and this is one of the top builders in Aspen, Colorado. I worked there for several years before my wife and I decided to move to San Francisco.

And once we got to San Francisco, I had actually been accepted at a number of architectural degree programs and really didn't think I was going to get as much of the

building side out of that as well, so I had been through a number of interviews and talked to—very funny story. A good friend of mine from college was from the Bay Area. Her dad was one of the principals at Esherick, Homsey, Dodge, and Davis [EHDD], which is one of the big architectural firms in town. So Peter Dodge arranged for me to meet with Joe Esherick, who was the dean of the architectural school at Cal. Went over there in my first couple weeks in town and met with the assistant dean, and we had about a forty-five-minute conversation that once we discovered each other's backgrounds, it devolved into form versus function. I was coming to school to get a little function out of the architecture, and he was telling me that there was no function to be had there, it was all about form and spatial relationships. So after forty-five minutes, we agreed to disagree and I left, and one week later I was working for Swinerton Walberg.

Adamson: Okay.

Naylor: That actually was a precursor to Swinerton. I should say it was Rockefeller Center Construction, which is the same Rockefeller out of New York that helped develop Embarcadero Center, and this was what was left of the construction arm. I was there for six months, and Swinerton Walberg was looking to hire a local contractor to do the tenant improvement [TI] work at their new building for Hines at 101 California.<sup>1</sup> So they absorbed our group and I was in that group, and six months after arriving in town, we were well into a million square feet of high-end TIs and the biggest Class A high-rise

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<sup>1</sup> Hines Interests LP is a commercial development and property management firm that was founded in Houston in 1957 by Gerald D. Hines. To date it has developed more than 650 projects and has worked with such notable architects as Philip Johnson, who designed 101 California (1982), Cesar Pelli, I.M. Pei, and Frank Gehry. (From the Emporis.com Web site. Accessed 10 November 2008.)

office building in San Francisco. So the transition was made. I never looked back, and was excited about it. I still am.

Adamson: Great. So getting into TI work versus shell and core or base building construction, is that just serendipity?

Naylor: Total serendipity. I came out of the residential background, but, as I said, I worked with my hands for a number of years and so had to relearn a little bit going from residential to commercial, particularly with MEP [mechanical/electrical/plumbing] systems, and since what was available to me was the tenant improvement work, I just took it on and went about learning as much as I could about the business. I remember that first year I would go home and every night I'd study a chapter of the *Architectural Graphic Standards*, just to try to get caught up and make the transition from residential to commercial work.

But the projects that we worked on in that first round sounds like a Who's Who of the *Financial Times*. At the time it was Visa, First Boston, Crowley Maritime [an international marine transportation and logistics services company founded in 1892], [and] a whole host of big-name San Francisco law firms, and it was just a terrific wild ride. Within the first year and a half, we'd done about all of the million square feet of first-generation improvements, and the tone was set and here I was. So wasn't planning to go anywhere else.

Adamson: We'll get Pankow today how they were organized. Can you compare that with Swinerton? Do they have a separate TI group and a separate base building group, or how was that?

Naylor: They actually do, yes. And one of the reasons I'm at Pankow was there was, after nine years at Swinerton, it seemed like there was an opportunity for me to run that group in San Francisco. As these things usually pan out, there was a little jostling for position. I was not comfortable with the way that it was going, so I went to Dave Grubb, who was the CEO at the time, and I said, "I really love Swinerton, love what's going on here, but you need one guy to run this interiors group and not two. Why don't you think about it for thirty days and let me know. If I'm the guy, I'm here. If not, I'll look for other options." He didn't make a decision in thirty days, so I made plans to leave.

While I was doing that, had written my own business plan for my own company, based on all the good things that I had taken out of Swinerton, and lo and behold, I ran into an ex-Swinerton superintendant that I'd worked with at 101 California, who was the director of marketing for Pankow at the time. We got together, and he said, "You know, I think we're looking for somebody who might want to run this group. We've just had one of our former clients come back to us and say that they weren't happy with the way that the tenant improvement projects in their existing buildings were going." They had asked Pankow to come back and see if they could do all the things they did on the big projects, if they can apply that to little projects on existing buildings.

So, Rik Kunnath, who was running the office here [in San Francisco] at the time, said to Jim Christian of Marathon U.S. Realities, “Absolutely. Be glad to do it. Let’s draft up a contract and let’s get going.”

So they did, but I think they probably came back to the office and they said, “Oh, my gosh. Who’s going to do this?” [laughs] So, lo and behold, things tend to unwind and I ended up talking with Rik and brought in what I was planning to do anyway, and Rik said, “Boy, that seems like it’s a pretty good fit.”

So we started a dialogue. I think at the time I was excited about not having to worry about cash flow running my own company. So we started working through the business plan, and Rik was very thorough about tasking and questioning every part of the business plan to make sure that what was going to come out of that was going to be very viable. And from that started the foundation of the Pankow Special Projects. So we initially started doing tenant improvement work in two Marathon U.S. Realty buildings, 595 Market and 303 2d; 303 2d was the building we’re sitting in right now that we built.

Within six months, I had brought over a number of other clients that I had been working with previously, and within six months we had about seven buildings in downtown San Francisco and Oakland under a master agreement to do all the work, big and small, in those buildings, and off we went to the races.

I think our first year we did over a hundred projects and \$6 million in volume. So you can see that sixty thousand dollars per project was the average project size, and it was small, fast, and furious, and we started with a very small team. Eventually I brought on one of the superintendants that I had worked with at Swinerton who was looking to

make a change. He came over, and that's Scott Morrison, who's now our general superintendant. So he has been with Pankow for sixteen years, and so things really started to click.

Charlie was very good at allowing Rik to have the latitude to try this. Pankow at the time was going through some big ups and down cycles, and '91 was a down cycle. I think Rik was thinking that we needed to have something to even out the big swings or the big curves, and if we could level that out, it would be better for the overall long-run business plan for Pankow. He talked with Charlie, Charlie went along with it. He didn't really know much about it because it wasn't his world, but he was willing to have a go at it. So, much of my interaction with Charlie in the beginning was actually through Rik and as a result, we kind of took this thing and away we went. But because the projects were so small, we were under the radar screen, so to speak, and nobody really knew about what we were doing, but probably for Rik and Dean Stephan, who was the president at the time.

A couple fun stories. I remember Dean came up and interviewed me with Rik, and he said two things to me. He said, "We understand you know about this business and we don't really, so we're going to give you the keys to the car and we're going to sit in the back. You drive. We'll let you know if you're going off course."

The second thing he said was, "We're going to give you a pot of money in the beginning of the year, and at the end of the year come back with a bigger pot of money." So those were my two instructions.

Obviously, Rik and I had worked through a lot more detail on how to make it happen, but one of the exciting things, and the reason I decided to join Pankow, was that

there was a huge opportunity to grow. I was really impressed with Charlie and his legacy, but also with Dean and with Rik. I mean, these are some very smart people, and the general caliber of the people that I started to meet with Dick Walterhouse, Dean Browning, everybody I ran into was really kind of higher caliber intellectually than I'd seen in the business. And I thought that at the time when I left Swinerton that, by and large, there were some very good people; but I thought that Pankow was definitely a step up. So it was the opportunity to kind of run your own business without having to worry about all the cash flow, and that's how I took it on.

Initially, again for the first few years, we were hardly a mention, very low profile, but as things started to grow, by '95 we had grown substantially in volume. I think we've averaged 16 percent growth since our inception year over year. We eventually added a medical group in Oakland with Larry Malone and opened up a Hawaii office, initially with some retail work. So things were starting to happen.

At that time, Rik, and probably somewhat with Charlie's encouragement, said, "Probably need to have an old Pankow hand run this thing." So they asked Dick Walterhouse if he would be willing to do it, and Dick was a project sponsor with CPBL [Charles Pankow Builders Ltd.] here in the San Francisco office.

So Dick took it over and really took it to the next level in being able to kind of manage Charlie's expectations as things started to grow into a 20, 30, 40, 50-million-dollar operation, and he was really responsible for taking it up to the next level over the next—gosh, it would have been—he started in '95, so really over the next twelve years or so, he had taken this thing from a small operation to a rather substantially sized operation. I think we were close to \$100 million in size during his tenure, so it was pretty neat how

we just kind of started out small, very grass roots. We used to joke that we'd run the stats at the annual meeting that we poured five yards of concrete in a given year. But we were really doing something that most people at Pankow didn't really, not necessarily understand, but they didn't really know about, because we were kind of quiet and didn't talk about it a lot. But as things have started to grow, and particularly now, it's definitely evolved, and there's recognition that we are contributing consistently and significantly to the company's revenues, and are doing it consistent with the Pankow culture.

Adamson: Was this acceptance or recognition just something that happened, or was there some resistance that you had to overcome? Did you have to market Special Projects inside the firm?

Naylor: Yes, is probably the short answer. Again, Pankow's got great people, but the perception—a lot of it is driven through Charlie—is that we are a design/build concrete firm, and therefore the young bucks that got hired out of Purdue and whatnot, that's what they thought the world was all about, and we were doing something a little bit different.

But over time, when people, particularly Charlie, looked at the financial results, you know, he'd always say, "Wow. This is great. Keep up the good work, whatever you're doing. Keep it up and have a really good year." So I would try to do that for him, and actually had a lot of help and guidance getting there with Rik and with Dick, and then eventually with Dean [Stephan] and [Dean] Browning and now most recently with Mike Helton.



So I would say that, as I think back on it, when I came here, it was just the opportunity to grow and to try something. I had an idea, and we took that idea and made it into a real viable business. You don't do it alone; you do it with lots of help and lots of teamwork. But that whole scene was something that Charlie was open to, and Rik was the conduit for that, kind of between the work that we were doing and Charlie. But I think he saw an opportunity there, and Rik's a very smart guy and he said, "We ought to try it," and he convinced Charlie there wasn't really a heck of a lot of risk from an overhead standpoint from Charlie's side.

So off we went and the results looked great and, for the most part, Charlie didn't know a tiny detail about what we did, although we did renovate his house at 3800 Washington and 3810 [Washington], so he knew a little bit. And whenever there was a problem or something needed to be done, Judy [Vawter] would call us up and ask us to come up and take a look at whatever that she needed to have looked at. So we did have some interface with Charlie.

Then eventually, over the course of time, as I got to know him a little bit better. I met him obviously at a number of the Christmas parties and at some of the managers' meetings, but as I got to know him, he would ask me to come up for lunch every now and then, and we just talked about we were doing. He had a great mind and insight for creating projects or how you look at things and develop opportunities. I hadn't met anybody like that before, and it wasn't just, "Go chase a project." He'd say, "Now, there seems to be a need over here," as I know he'd said in his little neighborhood, Laurel Heights. He was telling me one day, he says, "They really got a parking problem here. Why don't you go do a little homework and find out if we can build a parking garage

there for them in Laurel Heights, help solve their problem, because it's really crowded getting in and out of there every day." And that was just, I mean, one of the many examples that he showed me, but it was really kind of exciting to be around, just because all of the, kind of, hallmarks of the company, innovation, the design/build, all the relationship-based work and early commitments, we know it's all real. That was who he was and it really disseminated through the culture, and when you met with him, it was very clear that's how he thought about things. Since a lot of that already aligned with what I liked anyway and who I was, it just made the fit all that much better, and that's why I'm still here seventeen years later.

Adamson: If we could just step through a couple of things, break down a little bit what you just stated. Can we compare the Swinerton organization with Pankow during the time you worked?

Naylor: Yeah, yeah. At the time, there were some similarities and some differences. Some similarities were both companies believed in strong relationship-based work. Pankow, I think, lived it more than Swinerton. When I was there, we did bid a fair amount of private sector work. Never any public sector work. Both Swinerton and Pankow self-performed a fair amount of the work that—I know [when] I was at Swinerton, all the carpentry, miscellaneous labor and stuff for demolition, doors, frames, and hardware, miscellaneous concrete had self-performed crews. That was also within Pankow's culture, and I brought some of those people with me when I came over in order to give us that capability.

The perception in the marketplace is that both companies did high-quality work, and I think that's still the case. My perception was that both companies were well run and had a very good employee bond. Swinerton is an ESOP, Employee Stock Option Plan, so it's quasi-employee-owned, and Pankow at the time had the unit program. I felt that there was a little bit more sense of ownership on the Pankow side than on the Swinerton side, but both very similar along those lines.

Where there were some of the differences is that the design/build culture here at Pankow is way stronger as a delivery method than it was at Swinerton. That's not really what they did. They did more design-assist work and it was negotiated, but they were not averse to bidding in order to make the business run. I thought Pankow had way more of an innovative culture in terms of ideas and development of them than Swinerton did. They were doing their own innovation. A lot happened after I left. Instead of a technical innovation, they went on a mergers and acquisition innovative process in which to grow their business, and Pankow's business has pretty much been homegrown from the bottom up. I'm probably one of the few exceptions within the company that came from the outside and that it actually worked. But I know there's been a lot of folks that have come from the outside and it hasn't. Part of it is just not fitting in with the culture and understanding it. But I think those were probably just some of the fundamental similarities and differences between the two companies.

Swinerton called me up, and it was the twenty-fifth anniversary of the interiors group that I went to a little while ago, and there's still camaraderie amongst the people and it's still really, really high. I was accepted back in, even though I was coming as the enemy, right, coming from Pankow, but you put that aside quickly and there is a very

strong bond. We have really tried to create that here at Pankow, particularly within PSPL [Pankow Special Projects Ltd.], to kind of define ourselves as Pankow, but also to distinguish ourselves that we're not the same as the Charles Pankow building group, the base building group. We have a little bit of identity of our own, but part of it is just so that we could have a foothold and be somebody. But the core values are very much aligned in the same, and the culture is very much the same here. So what I try to do is take everything that meant the most to Pankow, innovation, the design/build, the relationship-based way of contracting, early commitment on pricing and schedule, take those things and apply it to the type of work that we're doing. So that was taking the similarities, adding what was also part of me that was closer to the Pankow culture necessarily, than where I was at Swinerton, and blending it to make it work over here.

Adamson: At the time you came to Pankow, how big was Swinerton compared to Pankow?

Naylor: Well, the funny thing in the marketplace is, Pankow is always a mystery. You never really knew. They always did really big high-rise concrete work, design/build basis, and nobody really knew how big they were; just that they were very big. Point of fact is, at the time, they were probably similarly sized. Swinerton might have been a little bit bigger at the time, but not by very much.

Adamson: So was it a matter of coming from a large bureaucratic structure of, well, a Bechtel or a civil engineering type of firm?

Naylor: No, not that big. I would say it was similar and, no, since then, we've grown but they've—I don't know, they're probably closer to a \$2 billion company today because of all their mergers and acquisitions and stuff. I think this year we're probably on the order of \$500 million, but now with Rick and our new growth plan, I think we're in the process of changing that.

Adamson: So they've maintained obviously, from the twenty-fifth anniversary, that they've maintained the TI group.

Naylor: They have maintained it, and they are called a TI group, and we have called ourselves the Pankow Special Projects Group, just because of the diversity of the type of work that we're doing. Initially, the San Francisco office did probably 80 percent tenant improvement work, and a lot of it was core financial tenant improvement work in downtown San Francisco and Oakland, and that was how we set up the original model.

Over time, we've kind of, I wouldn't say graduated, but we expanded a little bit and are doing a wide variety of things now, renovation work, lead work, some new buildings, although a smaller scale, but institutional work. We've really tried to diversify the business, both from an economic standpoint, but also as a potential growth avenue

into a variety of different market sectors. And particularly when the medical group in Oakland, the Hawaii office [where it's still] hospitality work, because that's what's there, and the Pasadena and downtown L.A. offices are doing a really wide range, because that's the markets that there is. So Swinerton has stayed here close to the corporate TI work. They don't really get outside of that fold at all, and just over the years I've felt that we needed to diversify a little bit, so I've taken the slow march in trying to get there, and I think we're finally achieving some of the goals that I'd set out to try to diversify ourselves.

Adamson: On talking with Dean Stephan, he indicated that, because of this relationship approach to obtaining work, that he didn't really think much in terms of competitors when it came to winning the business. In terms of Special Projects, would you say that's the same thing, or do you actually sort of run up against TI groups from other companies when you look for the business?

Naylor: Because I've been in town for a little while, I know who a lot of the players are for the different companies. So what we try to do is model our business to go where they weren't. So I knew where Swinerton was going to be, I knew Dinwiddie<sup>2</sup>, I knew a lot of the other firms, and I knew who they worked with and who they didn't work with. So I tried to go to where they didn't work with, in which case there'd be less competition.

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<sup>2</sup> San Francisco-based Dinwiddie Construction was established in 1911. Through a merger with Hathaway, established in 1923, the firm is now Hathaway Dinwiddie, with offices in Los Angeles, Santa Clara, and San Francisco. (From the company Web site. Accessed on 10 November 2008.)

And I think we were probably one of the first people to roll out this master agreement idea in the buildings where you do all the work in a building for an owner regardless of what the size is. We made early commitments on space plans so that landlords could deliver turnkey projects to their tenants quicker, and they had some price certainty, which made it easier for them to run their pro forma numbers. I think we were also the first people to come up with the master agreement for the subcontractors and the short-form subcontracts.

We started trying to innovate, do some things to make our office operations more efficient so that we could do a lot of smaller projects; and a lot of that was coming from Rik's input. Kim Petersen was also very helpful, and Vicki Martinet in trying to take the administrative portion of the Special Projects and work within the Pankow boundaries, but keep making it more efficient as we went forward. So I don't see—even today, we don't butt heads with the same guys every day. If we are in the TI sector, we're going to see certain people. If we are in the renovation sector, we see a few people but not too many. With our lead work, that's pretty much wide open right now. We're not running into all that many people, although again there's a handful in each one of these sectors where there are players, but if you know the market and you know the people, we're really trying to weave in between them so, again, we can do negotiated work, considered kind of a high-value-added builder for these guys.

Adamson: I think you touched a little bit on this in a previous answer, but at the time Rik was talking to you about coming to Pankow, and then subsequently since you came on,

what was your understanding of where the Pankow firm had been to that point and where it was going?

Naylor: Well, at the time, I knew about the culture because I kind of had a friend that worked here, so we spent a lot of time talking about who Pankow was, who they are, what the cultural values were, just so that I had an understanding of it. I wasn't necessarily sure what their next five-year plan was or ten-year plan. But I did know that there was an opportunity that was wide open, and we could create something and take it as far as we wanted to do it. So I went for the opportunity. I also liked the fact that it was employee-owned and if you really kind of worked hard and worked smart, then over the long run there was a little piece of the pie, so to speak, there for you through the unit program. So those were kind of big incentives. But again, I really wasn't focused on where Charles Pankow Builders was going in the next ten years. I just looked and knew that we could create something here that had the potential to go and grow wherever we took it. So that was more my focus at the time when I first came over.

Adamson: You talked about meeting Charlie. When was the first time you met him, and what were your first impressions of him?

Naylor: Well, Charlie had a reputation of—so everybody was a little scared of Charlie. [laughs] Just because he was kind of such a powerful guy, and I mean it was Charles Pankow Builders, so this was Charlie, and so you sure didn't want to screw up or be on the wrong side of things. So there was that perception.



But I first met him, I mean pretty early on, within the first few months of starting up here, and we got along great. He was a very personable guy and we just hit it off, so whatever the perceptions were, I understood all that, and it kind of came with the territory. But just the fact that he was kind of good, solid, warm human being when you got to know him a little bit, and he was always thinking, and then he was totally dedicated to making the business work, and would sit down and talk with you about all kinds of things, and he was looking for you to bring ideas to the table about how to make things better as well, and since I was wired that way, we tended to get along great right from the beginning.

Adamson: So whether you speak in indirect or direct terms, what influence would you say Charlie has had on your career?

Naylor: Well, one, and the most obvious one, is he gave me an opportunity to go out and achieve something. That's the kind of Special Projects of what is ultimately come, which is really fun, but I think just some of the core Pankow values, the innovation side and the while design/build delivery concept were things that I learned from him and through the Pankow culture that you just don't get anywhere else. A lot of people say that they are innovative, but I mean here it is the real deal, and to get that and see that in action is completely—it's so invaluable. And if you hear right from the source, you tend to incorporate it pretty quickly. So probably those couple things.

Adamson: Tell me a little bit more about the keys to success of the Special Projects group. You mentioned \$6 million in the first year, but what glitches or obstacles or challenges did you face, and how do you overcome them so that the business persists and grows?

Naylor: One of the things we started working on right away was the operational side. The accounting package was really set up for big projects; wasn't really set up for doing lots of little projects with lots of subcontractors. So we spent a lot of time with computers and Vicki Martinet, trying to work through and adapt the larger Charles Pankow-based accounting system to the Pankow Special Projects. They were very flexible and willing to make it work, and we just spent—oh, I probably spent the first six months to a year with them just constantly coming up with ideas, some of which I had brought over from Swinerton on how to do things that I knew were successful. So we tried some of them out and adapted them to the accounting package. It was a slow process, but I think over time, made some fairly significant changes in how things were done. So from an operational standpoint, that was probably the biggest challenge.

There was some very good people in the field that were able to help out initially from the Charles Pankow Builders side, so the field side was never really a problem when we developed our own self-performed proofs fairly quickly. I brought over a handful of guys from Swinerton, who were union carpenters, laborers, and that worked out very, very well. The actual getting the work wasn't really a challenge. It just had to fit this little bitty \$6 million piece of business that had the potential to grow into a very large

organization and make it work operationally without being the mosquito that [unclear] swatted.

We made some fundamental changes and have been constantly improving them every year. If we make ourselves more efficient, and at the end of the year hopefully we do a little better, and I think these days they call it a lead process or whatever, but this is just the other part of probably what I didn't talk about with Charlie. He was always trying to be more efficient, whether it was his casting of his beams and columns on site or whatever, so that efficiency, it's also how I'm wired pretty much the same way is, you know, you take all the inefficiencies out of any of the processes to make your company better. So we started in on the accounting side and slowly have been working around to some of the other things as well.

Adamson: How does design/build apply to this type of work? What did you take from that approach?

Naylor: In the tenant improvement sector, it doesn't apply directly, but there are some things that do. And that is the things that do are early commitments and to try to integrate the entire process. Design/build is an integrative project delivery model, and to the extent that even though it wasn't design/build, that we could integrate the space planning and bring the architect to the table and the engineer, and ourselves very early with the landlord—because most of our stuff at the time was landlord-based—and help that process be more efficient and enable the landlord to actually cut much time out of his overall process, which meant he could collect rent a lot earlier. So those early

commitments and integrating the team together were probably the two biggest things that we took and applied to the tenant improvement work.

Then as we have grown work for a variety of number of people over the years, the whole Bank of America relationship we had for all their retail branches was actually done on a design/build basis, and we worked with their corporate team to set up the structure in which to make that happen, and a lot now, the renovation work is done design/build on the true Pankow model, and lot of the lead work that we do, regardless whether it's commercial interiors or new construction or renovation, is also an integrated project delivery method. So those couple things we've tried to take and apply to everything that we do, which is again one of the things that probably distinguishes us from some of our competitors; but I really like it when we have been able to do it. It's a much more exciting process, and I really think that it has shortened the time period for the delivery of all our projects.

Adamson: Is there any appreciable difference in building on a Pankow building versus a non-Pankow building, in terms of—

Naylor: Working in them?

Adamson: In working with them and coordinating, or do you pretty much approach the work the same way?

Naylor: We approach the work the same way, and we've done a number of projects here at 303 2d. When we first got involved, the building had already been built. The things that we noticed, a lot of things about the design of the MEP systems, were, I think, a little more efficient than they were in other buildings, and this building was built on a design/build basis. And 2101 [Webster, where Pankow office in Oakland is located] has a really low load factor, given its size, I think, and that was based on the original design of the structure which was also done in design/build basis. So it seems like in some of the Pankow buildings that we working on, they are little more efficient than the non-Pankow buildings. You see a lot of the thought that went into it because the people are still here and we talk about it, and it helps us, I think, be a little bit more competitive on our tenant improvement pricing and projects that we worked there.

Adamson: I don't have the timing buttoned down exactly, but were you around when Charlie or George [Hutton] in Hawaii or anyone was doing development work, where you were building out a project where Pankow was the developer?

Naylor: I came at the very tail end of that. I think George probably retired a year or two before I got here in '91, so I never had that opportunity. I saw some of the development projects, but never actually got to work on one. Well, I'll take that back; 2101 Webster was a Pankow development, and we've done lots of work there. But that wasn't with George. That was a Charlie project, partly.

Adamson: You mentioned Larry Malone. Can you talk more about him and how he fits into this story?

Naylor: When we were looking to expand a little bit, Larry was looking to make a move from the company that he was at, and he was really well known within the medical field, and he really opened up the doors for us in a sector that we just were not in at all. So here was the kind of guy that when he walked into the hospital, he knew all the docs by first name and they know him by first name. So there was an opportunity there, and we, as a group, capitalized on it. So I got to know Larry only after he got here, and he was really an old-school, get-it-done kind of guy and very much relationship-based, obviously by knowing all the docs in the hospital. So it was fun working with him. I didn't work with him directly on a lot of things, but it was part of the Pankow expansion plan.

If you notice that expansion plan and if you look at Hawaii as well, most of the people that initially came to Pankow Special Projects actually came from outside the company. So I think that getting that marriage to work, particularly because the culture of Pankow is so strong, took a certain blend of people. And now we're a lot further along there, and most of the people that were coming up through the system we hired directly out of school, which is more the Pankow method. But as we expanded into a new business and we brought over some more senior-level people, those people were initially coming from outside the company.

Adamson: Can you talk about establishing the Special Project groups in the other offices, even if you weren't directly involved, how it kind of came from San Francisco and then expanded into Hawaii and southern California?

Naylor: The Hawaii office actually got started initially where they had the people but didn't have the capacity. So I know the first project that they got was the Warner Bros. Studio Store, and I think it was in Ala Moana shopping center, so I went over and we actually bid the project. So I went over for three or four days and we spent quite a bit of time putting the package together and getting it started, but that was not going to be the long-run solution by any means, and it took a little while. We started out with Arnie LePrade and then went to Warren Chaiko eventually as they started to establish themselves in the market, and it was tough for them getting it started. But we were importing a lot of the systems that we put in place here in San Francisco, and then subsequently in Oakland, and taking them and starting to apply them in Hawaii.

Now, the L.A. office actually was a lot easier in one respect, because Mark Fellows, who ultimately ended up going down there to start the Pasadena office, (a) had worked for Charles Pankow Builders for a number of years, and (b) had worked with me in San Francisco for a number of years, so he totally got it. He saw both sides, and, at least from an operational standpoint, it was a lot easier fit to get that up and running operationally in the L.A. area. Downtown L.A. is really a satellite of the Pasadena office right now. Mike Betz is running the Hawaii office right now, and Mike had tutored under Warren, so that kind of started the home-grown, in-house growth there.

Vern Miller, who's now taken over the Oakland office for PSPL, actually worked at CPBL for a number of years, and he originally came from outside the firm, but had been with CPBL for long enough so, you know, that transition worked a lit bit easier than it might have been if somebody came from outside the company. So I think we're pretty happy with the people that we've got, and now with the four regions kind of in place, and with their growth structure, we're able to align more closely with the kind of vertical integration, the kids coming out of Cal Poly or Stanford or Purdue and giving them the experience and let them start their career growth. As Dean [Stephan] and Rik said to me when I came on board—I was thirty-five—they said, “We want this to be the last job you ever have.” And that's what I tell the kids, same thing, that are coming up out of school, and that's kind of the Pankow model.

Adamson: Was there any other Larry Malone people brought in to expand into a specific sector?

Naylor: No, not to date. Again, Warren Chaiko in Hawaii came from the outside when he was here. I think he had had his own business and worked for a couple of other people on the Islands. I guess they were, just being in Hawaii, they weren't going to be in the hospitality sector. So, yes, I guess if they established a Hawaii office initially, as that went through their evolution of people to get where they are today, Warren came from the outside, as did Mike. But Hawaii is pretty small, so at some point the outside goes away and everybody's on the inside in Hawaii. [laughs] But I would consider them also of coming from outside the company.



Adamson: The Pankow Web site states that repeat business comprises the vast majority of Pankow projects, and I assume that means repeat with the owners or developers. And you mentioned relationships with landlords. So is repeat business something that characterizes Special Projects?

Naylor: Absolutely. Yeah, no, its north of 80 percent, and that's how we approach all of our work. It's a lot easier to have repeat business of any kind with people that you like to work with and like to work with you, and it also is a hell of a lot easier than going the other way, where your current project is just the opportunity to bid the next project the same. And life's too short for that. [laughs] So if you get big choices in your life, what would you do? Well, I like directly work with the people that like us, and if you can do repeat business with the people that like you, and you actually continue to deliver something that's of value to them, it's a lot more fun. So, yeah, typically, about half a dozen clients of ours make up 80 percent of the work we do. So it very much follows the Charles Pankow Builders model, and it's something that we absolutely try to live by.

Adamson: Looking at the Bay Area scene in terms of developers over the last twenty years, is it pretty stable, or new people come in and you go after them, or these people that are here now of interest have been around a long time?

Naylor: Well, most of the people that come to the Bay Area stay in the Bay Area, so they may have changed companies and the structure of the companies may have changed, but

the people are still the same, which has been one of the great things, so that one of the reasons we've diversified over the last couple years was that the traditional landlord/owner model in downtown San Francisco radically changed over the last three years. More than 60 percent of the buildings changed hands. There no longer was an owner. There was a pension fund, a REIT [real estate investment trust], somebody that was the money but then there was third-party management firm that was running it, was very much an MBA matrix checklist on evaluating contractors and whatnot, and you realized that the model was changing. We had really one option, is if we want to stay ahead of the game, we'd better change.

So part of that led to the diversification and into the stuff that we're doing today, and also the fact that if you had that many buildings changing hands, the net result is the work slowed down, because everybody had to come in, evaluate their budgets, get to the know the building, figure out what they're doing, maybe hire new brokers, and all that took time. So as a result, there was less work that was being done. That and the general rollover in the market, for whatever reason the cycle was off. So the last three years have been slow, and it's only in 2009, 2010 that we're going to have more general turnover in the market as well.

So the people are similar and they still want the same things, but the evaluation process and relationship that we used to have direct with owners—we could talk with them and make decision quickly—has changed a lot, and it makes it a totally different business than it used to be. And that's the current cycle. In five years or ten years, it may cycle again, but we're here and we're still in the markets. But you try to be a little

smarter and adjust your business plan so that you can still have the opportunity to do repeat relationship-based projects.

Adamson: Dean Stephan indicated to me that he thought that Special Projects work carried the company through the early nineties because there wasn't a lot of shell and core work going on. Did you get any sense of that? Did you feel any pressure that you were carrying the company at that time?

Naylor: It's very generous of him to say that. Yes, we knew that. We knew that, and that was part of the reason that he made us probably work all that much harder. Even though we didn't get all the direct recognition, we knew we were making a difference and we knew that that growth plan was having an impact. It took a little while for the recognition to catch up, but it didn't matter for us. Plan the work and work the plan, which was kind of the Pankow model. We were very excited about being able to do it and watch our own little sector grow here. So, yeah, the fact that it had good results, that was wonderful, not lost on us, but again, relative to the big picture on a volume base, yes, he was probably even into the mid- and maybe a little bit later nineties, as we started to get up into the 50, 70, 90-million-dollar range, yeah, there was a big impact.

Adamson: I know there was an article in *Pacific Business News* in 1995 that was referring to the tenant improvement group in Hawaii.<sup>3</sup> They suggested that it had been set up, for one reason, to retain relationships with owners and subcontractors during tight times. Can you talk about the role of Special Projects in maintaining relationships?

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<sup>3</sup> Jackie Poole, "Contractors Chase Shrinking Business," *Pacific Business News*, 13 March 1995, 28.

Naylor: Yeah. The idea originally was that if we wanted to have constant contact and stay in front of owners for the potential big projects, what a better way to do it than to do a bunch of little work for them and continue to be of high value and service to them, so then it came time to do a larger project, that we would be there for them front and center, and it was an easy segue. And that was the result [or] thought on doing a lot of this work. It has happened somewhat, but maybe not as often as we thought over the years, but that was definitely part of the thought process early on.

Adamson: On the other end, maintaining relationships with subcontractors, is that something that has been a goal going in, or is it something just fits with doing Special Projects?

Naylor: Well, it's a goal. It's interesting. Again, when we started in '91, it was a down cycle, so in a down cycle, the subs need us. In an up cycle, we need them. So initially, yes, we carried a lot of subs in the Special Projects group through the slow times, and that was very good because we knew that there would be time when the shoe would be on the other foot. Now, they're not necessarily all the subs that work for Charles Pankow Builders, but there is a lot of overlap, and again, those companies have different groups. But the idea was that there was recognition within those subcontractors that we were again very much relationship-based and interested in very long-term relationships with them, and we expected that, and particularly when they come to the design/build arena, we expect them to be able to make early commitments with us as a part of the team. So

that the more projects that we could do that way certainly helped develop the relationships where we got bigger projects; we didn't have to re-teach any of the subs what we were doing. They had already been doing it for a number of years with us.

Adamson: I know from your résumé that I have, that you have been part of a number of task forces or committees associated with the Building Owners and Managers Association [BOMA] in San Francisco. You've been here a couple decades. Can you talk about how the business environment—I think you alluded to the developers—but just the business environment has changed in San Francisco in terms of building codes and how Pankow has taken advantage of these changes?

Naylor: Well, with BOMA or any of the other organizations, we always try to be involved at a committee or subcommittee level and actually participating in there, so one of the things is that—it used to be the Building Code Task Force. Now it's called the Code Advisory Committee, which I had started sitting originally. Now I've got some of the other guys in the office doing that. And part of that is if you want to have an impact, you've got to get involved in all these organizations. That's where you get to know people and work with them at a level so that they get to know you and the company, and once they can start evaluating you and seeing that you're actually a pretty good person and that you work with a lot of integrity and professionalism and stuff, they will take that and it transfers right over into projects. So it becomes kind of a direct applied marketing approach for us to the business, just from how we go about approaching it.

BOMA, again, has been a very stable factor for many, many years here. It's one of the stronger organizations for BOMA internationally and in the United States. But they've had to change over time as well to adjust to their constituency group. Again, it has changed from it used to be a core group of owners, whether it was Walter Shorenstein or some of these guys, to now it's really more REIT-based. So a lot of what you see in BOMA are the third-party managers. But they've still got to get work done. They're predominantly the same people. We've known them for a long time. We've done lots of projects with them. But the way that we get involved and interact with them is at this committee level. I would say particularly with what we're trying to do in the growth in the lead sector is very much that way as well. One of our guys, Jim Coyle, is on the board of directors here in northern California. Then we've got Alex Sinunu, who was on one of the committees, and I'm involved in one of them as well. As you get in there and get to know the organizations, that's kind of where you get to meet the people, and that's where the future work really starts to happen.

Adamson: What has been your favorite Pankow project?

Naylor: That's a good question. Probably for the experience and the process, I really liked the whole sequence at BofA projects that we did in the mid-nineties. We were one of Bank of America's on-call design/build contractors, and we worked in the retail sector because they thought we were retail guys and didn't do tenant improvement work. But, okay. But they set the process up so it was very collaborative, and we had to integrate all of their different banking groups and coordinate them as a part of our contract, and we

were involved in all these projects from the real estate beginnings all the way through closeout, and to be part of that and just that organization that kind of made the change and decided to take on the design/build delivery process was really, really exciting. There was a series of projects. We worked with them for about five years up until the point of the Nations Bank merger/buyout.

Probably the things that I'm most excited about now going forward are some of these renewable energy sector projects that we're trying to take our office in the direction of, and we're working on a couple things right now with Chevron Energy Solutions on some potential biomass projects and big photovoltaic projects, that kind of stuff. So that is what I would say is anticipated to be kind of the most exciting going forward as we start to look at where we're trying to take the office here.

Adamson: Now, among the three offices, in terms of volume of business over time, has it been more or less equal, has one office done more, or is it just a function of the market they're in [with] Los Angeles being potentially bigger than San Francisco?

Naylor: Over the years, we're the first in and most established, and at least probably for most of the first fifteen years we were the leader. The L.A. market with Mark has grown radically, and they're doing a great job. Vern, in Oakland, last year was a huge year for him, and Mike has really developed the Hawaii office. I would say right now, at least in the business planning, we're all planning at about equal. You'll have some ups and some downs based on the year, but the planning is that we'll all be equal contributors.

Adamson: There was an article in 2003 in the *Los Angeles Business Journal* that stated that Pankow Builders, quote, “Offered small company intimacy and large company capacity.”<sup>4</sup> I’ve asked this question of several other people, but I want your take on that characterization.

Naylor: I would actually agree with it. Again, if you look at this from the Special Projects side, if you have four offices like we do, and each office has got maybe ten people in the office and project management up to ten people as superintendents in the field, and maybe fifteen to twenty carpenters and laborers, you know everybody. You feel like you’re pulling as a group. How many little groups are going to have \$300 million in bonding capacity? So you really have the big company resources, but we try to apply it and present the business not only internally but also to our clients as kind of a small business, very service oriented. So I definitely agree with that.

Adamson: Now if we look at the transition to half a dozen general partners planning for succession after Charlie, as far as Special Projects was concerned, was it all more or less seamless, the transition, or were there changes made or different assessment of Special Projects at that time, or coming out of the succession has anything changed directionally?

Naylor: That’s a good question. I would say that the overall transition from my perspective was done quite seamlessly. There had been a lot of preplanning, credit to Rik and Kim [Petersen] on that, and that, if anything, Pankow Special Projects probably had

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<sup>4</sup> “Charles Pankow Builders Ltd.: Celebrating 40 Years of Building Excellence,” *Los Angeles Business Journal*, 29 September 2003, S7.



an even greater opportunity to expand and be part of the Pankow culture since Charlie passed away, partly because the new general partners were here and saw it and, again, mostly through Dick [Walterhouse], that we'll actually provide some real value to the company operations, had a reputation.

So what started out initially with Charlie is, "Looks great. Keep doing it. I'm not quite sure everything that's going on, but I like it," to a full recognition that it's definitely part of the fabric of the company. I think there's more opportunity for integration and of both our operations than there was when Charlie was around, which I think will be very good for the overall company as we look at five years, ten years from now.

Adamson: Now, in talking about Charlie's legacy, obviously there's a company with his name, and other people have distilled his legacy into design/build and concrete. Is that how you see his legacy, his company and these two, sort of, design/build approach and concrete innovation?

Naylor: Yes. Within the business, that will be his legacy. It already is. I think for the people that knew him and worked with him, it was much more than that, you know. He was just a hell of a guy. Talk about integrity of people and how you present yourself, that's who he was. So, as a result, people that are here that have been here a long time, that's who they are.

What we do on a day-to-day basis is innovation, design/build, and concrete as a company. That's what we're known for in the industry, but on the other side and kind of how he made the people that work here, this was the product, right? But who the people

were and how they presented themselves, and if you ask anybody in the industry, they'll say utmost professionals, very smart, run their business well, lots of integrity in everything they do.

So this is what we did. The stuff I'm describing is kind of who and how we did it, and that's probably the thing that will get lost over the years as things happen, but that's only because most people in any legacy, you're judged by what you did or what you accomplished. For the people that were here, got to know him, it was the "how." At least for me, that was as important as the "what." So, yes, I would say that the legacy is design/build, concrete innovation, and Design/Build Institute of America, that type of stuff, but I think the other stuff is as important as what made it happen.

Adamson: You mentioned efficiency in talking about Special Projects in the mode that people talk about innovation in Pankow. Is there innovation that you can apply to Special Projects that, for instance, would get some sort of interface from the Foundation? Is there research or is there something that Special Projects interfaces on the innovation front?

Naylor: Well, a lot of our innovation is not necessarily technical, it's more logistical, because we work in occupied facilities for almost all of our work, and we've got to come up with ways of doing things that are as least disruptive as possible and still get things done on crazy schedules, whether it's in the hospitals or the work we did at the Federal Reserve Bank where after 9/11 they had to harden the entire skin, and we took that and converted it into design/build project. The only reason we got it is we came up with a

way in which to keep the building open, minimized the amount of disruption to the entire building, yet still able to move through and do the schedule pretty quickly.

We're able to display that and show that very early in the process as part of our proposal. It actually put the innovative thinking in. That's more what happens than we've got some great product or technical process. There's no slipforming going on in our world. It just doesn't happen. But how we do what we do, I think we do better than most people in the innovative thinking and how you go about your planning. I think as you get into lead work, there will be more opportunities for some product and technical innovation, but that's going forward. But for the last seventeen years, it's been more logistical.

Adamson: I believe it was Dick Walterhouse explained to me that the size of projects determines whether Special Projects does the work or CPBL.

Naylor: Yes. Right.

Adamson: The example I had given him was the Eastern Columbia Lofts, which was an interior project, but wasn't done by Special Projects. It was explained to me that it was because of the size of the project. Going forward, is there that same sort of division you see persisting, or do you see a different evolution and how, who does the work?

Naylor: Yes, it's a very good question. It's one that's evolving. Right now it's probably less about the dollar volume and more about the staffing. If we need to have a trailer on

site with six field engineers figuring out what the concrete form design is going to be, it's not going to be Special Projects project. But if it can be run with a superintendent, project manager, maybe an assistant project manager, regardless of the size, so we know [there] would ultimately be some upper limits to that, that will be a Special Projects project.

What we're seeing is that the perceived bar for what the dollar amount is has been moving more, and we're less inclined now to determine it by a dollar amount than we are by a staffing amount. We're doing some new structures, but by and large, we're working in existing structures, and you can use that team format to get the work done. Generally, there will be—like on our seismic work, we'll have a fair amount of concrete and steel work that's done, but at least in the renovation side, it typically only adds up to be a quarter of the overall project.

So working on like the new T-12 building for Shorenstein, that's not a Special Projects project. You've got a trailer full of project engineers, field engineers that are just toiling away on that structure and all the different details for the concrete and how it's going to be designed and engineered and stuff. That's not who we are.

But we could—Vern did a 20-, 25-million-dollar renovation of the emergency department for John Muir Medical Center last year. It was Special Projects. So you can see that the definition's changing a little bit, but overall it still comes down to can it be managed with a project management superintendent team, maybe it's got one or two more people, and does then the work product fall within their kind of technical capabilities? Once it starts to move outside of that does it become a Special Projects anymore? It's got to be sent more over to the Charles Pankow Builders side.

Adamson: I've reached the end of my list of questions. I have two questions I'll throw out that are just global. One is, do you have a favorite anecdote about Charlie that you haven't told me so far?

Naylor: Let me think about that for a minute while I take your second question.

Adamson: Second question is, you know Special Projects a lot better than me, so if I haven't asked you about some aspect of it that you want to fill in the gap in my questions or you want say something about Special Projects, where it's going, that we haven't talked about, go for it.

Naylor: I think that, again, we have talked about it a little bit. It started out as a small germ of an idea and had some very influential people in Rik and Dean and Dick and, obviously, Charlie, that allowed it to grow, and I think that in the next ten years it will continue to be a very significant part of who the company is. It's how we've developed it that it's worked.

I know that Rik has talked to a number of CEOs from other firms that have tried this, and it didn't work for them. So what we've done and how we've developed it has truly been special and has allowed for it to succeed. But a lot of that comes back from Charlie initially saying, "Here's an opportunity. Show me how. Here are the keys. I'll sit the back and I'll steer. But here, run the show." So without that, we would never have gotten to where we are today.

I always remember with Charlie, whenever you got together with him, you'd always sit down, we'd sit down, your heads would be close together, he'd say, "Look, how you doing? How's it going? Are you getting any new work? Who are your new clients? What are you thinking about?" So I always got such a kick out of it because even when he was about eighty or so and we were still having these conversations, he was very, very much engaged in the whole process. But at the same time, it was cute because he was very, very personable about it, and to have somebody that was like that just got you all excited. But taking it away and trying to go make it happen, the next time you got together, he'd say, "Well, how'd it go? What did you learn? What are you doing next?" So, that, to me, as I look at it, you have kind of the man with the legacy that's going to be portrayed to everybody, but it was really who the man was to me which was probably the more special part of the relationship of everything that I got to know about him.

Adamson: Well, very good. I thank you for your time and your contribution to the project.

Naylor: It's very exciting, and I think we're probably at the end.

[End of interview]