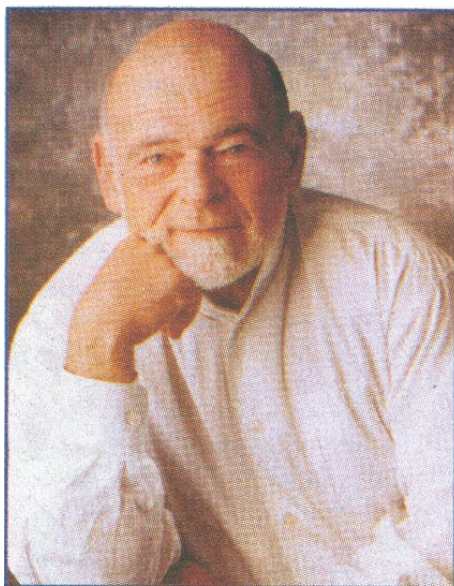


An Interview With Sam Zell:



Samuel Zell is well known, especially in his hometown of Chicago, as an innovative thinker, astute businessman, and one of the most successful leaders in the business world. He has been referred to as the Michael Jordan of the real estate industry. In the December 2000 issue of REALTOR Magazine, Zell was named as one of

the 25 most influential people in the real estate industry. Conducted by CAR member Dr. Margot Weinstein (see biography, page 5), this series of articles exclusive to the Chicago REALTOR® magazine is where Zell shares his views on the future of commercial real estate in the 21st century.

In part two of Zell's interview that will be featured in an upcoming edition, a few of the subjects to be discussed will be the impact of the new law on REITs, changes in supply and demand and customer service, advances in technology, and much more.

Weinstein: Real estate has always had radical cycles. Mr. Zell, what do you envision the economic climate will be in the real estate business in the next 1-2 years?

Zell: I think that the radical cycles of the past are in fact, they are in the past. The real estate in-

dustry is dramatically

changed in

the beginning of the 21st century, compared to what it was like for the last 50 years. This is the first time since the end of World War II that we will have a peak economic cycle and not have real estate in over supply.

I think that the creation of large public companies, with a lot of transparency and a lot of focus by the analytical community has dramatically extended the level of knowledge in real estate, and therefore has resulted in modification of the historic cycles.

The other key element to that is the fact, that up to the 1990's, real estate had dedicated key lenders,

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lenders who provided money to the real estate industry almost exclusively and tended to be contributors to previous oversupply since their funds were targeted to real estate. And often times, they didn't reduce their activities, despite the fact that conditions had changed. Today, real estate has to compete for capital with everybody else, and therefore, with no dedicated real estate lenders, the ability to shut off the pump and limit the capital to the industry, is much easier, and I think will have a governing effect on the industry.

Weinstein: What do you predict as one of the two major changes within the next five years in real estate?

Zell: I think that what we will see in the next few years, is the continuation of the consolidation of the real estate industry. If you look at the economic playing field, you will discover that real estate is the only capital intensive industry that is not an oligopoly. We have been in oligopolistic trend since the beginning of the '90s, and I think this will continue. The result will be that a greater percent of commercial real estate assets will be owned by fewer and fewer players.

Weinstein: Discuss the challenges and benefits of real estate developments outside the United States?

Zell: I think that goes back down to that phrase we use called supply and demand. But this time, the definition of supply and demand is capital, and we are investing in various parts of the world. I think that our number one objective is to find areas where our capital is dear and therefore, we are able to get very high returns for our endeavors. I don't necessarily believe in going offshore to make an investment that has similar characteristics to those that we can make in the States. So, I think that, on the international level, there are areas of the world where our capital is very dear, where

growth is very significant and where there is stability, and those are the criteria necessary for whether or not it makes sense or not, and whether or not you can get the kind of returns necessary. Whenever you seek returns, the returns have to be appropriate to the risk.

Weinstein: Today, the Web provides information on many properties throughout the world. In the past, real estate professionals did not have statistics to use as comparison, but today wherever you invest, you must be aware that this data is available?

Zell: But, you have to remember that once you get outside of the United States and in Western Europe, the amount of information that is available is dramatically less. For example, we were stunned that when we were in Buenos Aires for the first time, there is a city with twelve or fifteen million people and millions and millions of square feet of office space, and there are no statistics. There is nobody that you could call who says that the market is 10% vacant or 20% vacant, or what average rates are, or rent per square foot is.

Weinstein: What is the impact of lack of this information?

Zell: It's indicative of a market that is very difficult for the investor. It creates inefficient markets. Inefficient markets create opportunities. As those markets mature, they will in fact, have the characteristics of the rest of the world. You will be able to go to Buenos Aires, and say, what is the occupancy rate, what is the square footage rate, what's the tenant allowance rate, etc.? You can now get that information anywhere in the United States.

Weinstein: What do you think companies will need to survive?

Zell: Discipline, focus. The same things they needed to survive in the 20th century.

Biography: Samuel Zell

Zell is the founder and serves as the chairman of the board of Equity Group Investments, L.L.C. (formerly known as Equity Financial and Management Company), an investment firm based in Chicago. The Chicago native maintains substantial interests and serves as chairman of the board of numerous real estate industry corporations including Manufactured Home Communities, Equity Residential Properties Trust, Equity Office Properties Trust, and Capital Trust, Inc., as well as several other non-industry related companies, including Anixter International, American Classic Voyages, Chart House Enterprises, and Danielson Holding Corporation.

In addition, Zell is involved in numerous charities and associations. He is the immediate past chairman of the National Association of Real Estate Investment Trusts; he is a trustee of The Field Museum of Chicago and the President's Advisory Board at the University of Michigan. Along with the University of Michigan Business School, he established the Zell/Lurie Entrepreneurial Award Program which funds entrepreneurial awareness and sensitivity. Zell has long been a supporter of the University of Pennsylvania Wharton Real Estate Center where he has endowed the Samuel Zell/Robert Lurie Real Estate Center. Zell has been a frequent contributor to articles in real estate publications, and he often presides as a keynote speaker throughout the United States and Europe.

In the 1990s, he took three of his real estate portfolios public resulting in three of the nation's top Real Estate Investment Trusts (REITs). Equity Office Properties is the nation's largest publicly traded owner-operator of office properties, while his apartment and manufactured home communities REITs are also in the top sector of the industry. He was an active force behind the new REIT law that goes into effect in 2001 to enable REITs to own taxable subsidiaries; this will allow REITs to provide additional services.

Weinstein: What about access to all the technology and intelligent people?

Zell: I don't think the millennium represents any unique time for us. Successful businessmen and successful businesses survive because they are focused. Because they understand their markets, because they understand the challenges, and they are adequately capitalized. All those are the characteristics of success, and I don't think there's anything new in this world. And I promise you, this time it is not different.

Weinstein: Will advances in technology require that people involved in the business develop different types of skills?

Zell: The skill base required of business is constantly changing. I mean think about it, and forget about technology. Think about finance, think about finance four years ago, and think about finance today, and over that four year period it has become more and more and more sophisticated.

Weinstein: But, with advances in technology, changes in the skill base must have an impact on the business?

Zell: Well, but that's not technology; that's everything. As our knowledge level increases, we have a greater ability to expand into and create markets like interest rate swap markets. By better quantifying and assessing risk, we are more likely to be successful. So the answer is, we're getting more and more sophisticated.

Weinstein: In the future, will success in the business require professionals to obtain more formal education and advanced degrees?

Zell: Sure. It's a very sophisticated business. This is not your old father's business, where the father was the developer and the brother-in-law was the manager. The business is becoming more sophisticated, requiring higher and higher levels of intelligence and discipline.

Weinstein: Some universities are beginning to offer a practicum as well as a mentoring program for real estate professionals. Can these formal programs provide the basic knowledge professionals will need starting out in the business?

Zell: Only in a small way.

Weinstein: Based on your answers, what advice would you give to new people entering the commercial real estate business?

Zell: The only advice that I would give is if I were starting out today, I think I would seek an interim position that would like give me a real grounding in the elements of the business. Education is wonderful, but it's really limiting in terms of understanding how businesses, and how real estate in particular, functions. And so, if I would give someone advice, I would say that the best thing to do is pick a bank or an insurance company, or pick somebody where you can really get a ground floor education. Because there are an awful lot of people wandering around this industry that don't have it and suffer greatly.

[Editor's Note: Watch the Chicago REALTOR® for part two of our exclusive interview with Samuel Zell.]

Author's Biography: Dr. Margot B. Weinstein



Dr. Margot B. Weinstein has been Vice-President of Kingston Group Inc., a commercial real estate company, since 1978. She is also an Adjunct Professor and Professional Advisor for DePaul University. She received her doctoral degree in education in 1998 from Northern Illinois University, and her dissertation on leadership in real estate, was nominated for the outstanding dissertation of the year. She has two master's degrees from National-Louis University: one in psychology and one in adult education. She has conducted research and presented throughout the United States as well as in Finland. Her work has been published in several journals, books and conference proceedings, and her recent chapter on leadership is in the book that has been nominated as the book of the year by the Academy of Human Resource Development.