



Part 2: An Interview With Sam Zell

by Dr. Margot B. Weinstein

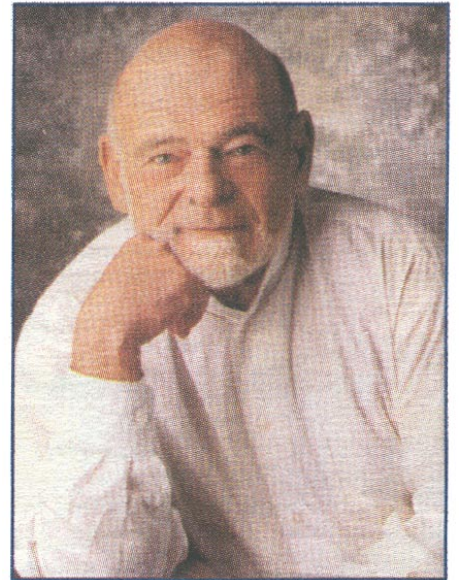
Sam Zell's career as a financier and top deal maker in commercial real estate has spanned over thirty years. In honor of Zell's phenomenal accomplishments, he was installed into CAR's "Hall of Fame" in 1999. Highlights of his distinguished career are summarized on page 11. In this article, which is Part II of his interview, Zell discusses such topics as customer service, supply and demand, REITs, technology, and most importantly, his leadership style.

Weinstein: In the last few years, there has been a wealth of merger and acquisition activity in the real estate industry, resulting in large real estate companies like your own. Do you anticipate this trend will continue in the future, and if so, will smaller companies

be able to compete, or will they be a thing of the past?

Zell: There's no question that scale is playing a greater and greater role in the real estate industry. A perfect example of that is when Equity Office went into the bond market and raised a billion dollars within 24 hours. That is something that never existed before in the real estate industry. Getting credit ratings was never something that existed in the real estate industry before. These are all reflections of scale, and I think that scale will be an advantage to those that have it, and a disadvantage to those companies who don't. As to the future of smaller companies, I think they are either likely to be acquired or become less relevant.

Weinstein: You stated at Transact 2000, that successful companies understand the



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concepts of supply and demand and customer service. How do you foresee these factors will contribute toward success in the real estate business of the future?

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Zell: Clearly, if supply and demand, are kept in balance, the real estate industry as a whole, the commercial industry, will benefit accordingly. As to the question of service, I think that we are in the forefront of radically changing the relationship between the landlord and the tenant. The landlord historically was the provider of a box, and the tenant leased the box, and then the tenant took care of all his own needs.

What is happening today is that the landlord has recognized that he has a unique relationship with the tenant, and that his asset is the tenant as much as the building. And, therefore, the focus is on how to better serve the tenant with services that generate additional revenue streams that otherwise would go to third parties.

Weinstein: In the 1999 *Deal Makers Guide for Real Estate Developers, Owners and Investors*, David C. Long stated that you are responsible for three of the nation's top Real Estate Investment Trusts (REITs). Your Equity Office Properties is the nation's largest publicly traded owner-operator of office properties, while your apartment and manufactured home communities REITs are also in the top sector of the industry, and you were an active force in the new REIT law that goes into effect in 2001. Given your involvement with REITs, what do you believe will be the consequence of the new law to REITs, as well as the future REITs in general?

Zell: You should add that question to the one you asked before. The REIT modernization act has basically been created to facilitate the landlord's ability to interface with his tenant, not solely on rent and customary services.

I believe that this new legislation will be extraordinarily positive for the REIT industry, because it will give the industry the ability to use its unique relationship with the tenant to generate additional revenue from services that a landlord is in a unique position to provide. I think that this is very positive for REITs going forward. It is particularly relevant because it has an enormous impact on the calculation of the return on assets. Today, we grow by buying a second building. Tomorrow, you may grow by creating additional services that your tenants are willing to pay for that will generate additional revenue, but that don't require significant capital investment.

Weinstein: In relationship to Chicago, as well as other parts of the country, what do you estimate will be the largest areas of growth or decline—such as condos, rentals, affordable housing, office developments, etc.?

Zell: I'm afraid that's a little too broad a question. I would say that there's never been a surplus of affordable housing, and I would imagine that we will be in perpetual need of affordable housing for infinity.

So, I don't think affordable housing falls into the arena of supply and demand. But clearly, I think the country is adding new space at a moderate rate. In all of these arenas, obviously there are some areas where we will get ahead of ourselves. Certainly, in the Chicago area, we have added a plethora of condos, and condo conversions, conversions of industrial buildings to condos. Whether the market is deep enough to absorb all that has been done remains to be seen, but what I don't see is the kind of massive excess that was so prevalent in previous eras.

Weinstein: Will generation X, the group born between 1964 and 1978, play an important role in the future success of the condo market in Chicago?

Zell: Condos are very expensive. You have to have a down payment and you have to have credit records, etc. Many have to live in apartments, unless Mom and Dad decide to foot the bill.

Weinstein: Then, what impact will the aging of the baby boomers and generation X have on the real estate business?

Zell: I don't think the real estate business is quite as responsive to demographics as it is to other much shorter term kinds of things. Obviously, when the current group, I don't know what they are called, but they are ages 18 or 19, that particular group is growing very rapidly. College admissions are very high, graduate school admissions are not so high, because we are in effect moving through another group; so obviously, that's going to increase the demand for multifamily housing. Obviously, the change in the way in which we live, the fact that people don't get married until their thirties, is also changing the supply and demand of markets in real estate.

But, at least for the near term, I am pretty optimistic that the kind of capital that will be available will reflect true demand, and we won't not see the kind of excesses that we have seen in the past.

Weinstein: Predict the effect that new innovations in technology such as e-commerce, the Internet, high-speed/high-capacity computers, will have on different areas of business, such as sales, advertising, training, development, management, investment, hiring practices, etc.?

Zell: I think that in a nutshell, the tech market advances create extraordinary opportunity to make our operations more efficient and increase our productivity. That's going

to be its biggest advantage to the real estate business. I think that we will see a significant amount of transactions done on the Internet. But, the real, real benefit is the fact that a company like EOP (Equity Office Properties) can put its entire operations on the Net and therefore avoid a lot of paper, and reliance on phones and faxes, and it becomes dramatically more efficient.

Weinstein: When real estate companies put their operations on the Internet, they must save a lot of money on print materials? I know it affords universities and publishing companies a tremendous savings.

Zell: I think the savings potential is fabulous. I think the implementation issue is much more difficult to predict and will take much longer than today's instant gratification world we live in.

Weinstein: What do you visualize as tremendous areas for investment today?

Zell: Well, since I believe that we are going into a recession, I believe that "tremendous" doesn't seem like the right adjective.

Weinstein: Replace the word "tremendous" with "hot" areas for investment?

Zell: Obviously, there are many technological areas that are expanding and people are pushing the limits, etc. But, I would probably be a very cautious investor in today's environment. I think that real estate is likely to outperform other investments opportunities in the next 24 months, but I guess my main inclination is caution.

Weinstein: How do your companies attract, hire and keep the "brightest minds" in the business?

Zell: I guess my answer to that is really one sentence, and this is: If you do exciting things, if you are at the vortex of change, and if you are in leadership positions, you can attract anybody and everybody, and in any market, including this market.

Weinstein: Your companies advertise for qualified people on their Websites and at job fairs. It appears that you are actively seeking capable new employees?

Zell: Sure. We run huge companies. We are constantly growing. We constantly need more people. But, the answer is, when that person comes to you at the job fair, if you are doing something that is challenging, interesting, exciting and on the leading edge, they get very excited, and they want to work for you. And if you're not, you're just another guy with a booth at the job fair.

Weinstein: Would you like to discuss one or two of your accomplishments in the business?

Zell: I think that, uh—no, I really wouldn't. I think that what I would say to you is that I consider my involvement with the creation of the modern REIT as the most interesting and challenging thing that I've ever done. And certainly, I think, of all the things I've done, it is likely to have the largest long term consequences.

Weinstein: Could you give one reason why your involvement in REITs has played such a significant role in your career?

Zell: It's very simple. From 1960-1990, the REIT industry was six billion dollars. Today it's 150 billion. That means that in the last nine years, we have done 25 times the size of the industry that existed nine years ago. There aren't very many industries that explode or convert at that extraordinary rate. And, I think if you go back to the various questions you asked me before, they are all connected. My answers are all connected. I have sought to have very large, transparent, accountable and predictable public companies in this industry.

Weinstein: Discuss a challenge that you have faced along the way.

Zell: Obviously I have had many challenges. Probably the single,

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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. She can be reached at MWeinstein@aol.com.

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biggest challenge was dealing with my partner's death in 1990. The personal loss combined with the dramatic change in my responsibilities, because now one guy was now doing what two guys previously did, I think that was the most difficult challenge that I have overcome and particularly because I was doing that in the middle of a very difficult economic period.

Weinstein: How would you describe your leadership style?

Zell: I guess I would describe it as in a number of different, perhaps, clichés. I probably would start by saying that the eleventh commandment is the most important thing, and that is, "though shall not take oneself seriously," and that, as a leader, I am not threatened by others, and in fact, I look for the smartest and brightest people I can possibly find.

Hopefully, they're smarter than I am. And so, philosophically, I am a motivator. Encouragement—that's what leadership is all about. I also set the rules. The rules are two words: NO SURPRISES. And so, if you combine encouragement with discipline, I think that's what I would call my leadership style.

Weinstein: Is "risk-taker" part of your leadership equation?

Zell: Well, I am the ultimate risk taker. This is my capital. So that's, that's of course the rule, but the real answer is that if I am going to succeed at what I do, I have to be able to get that risk-taker capability extended down for people who work for me, and in effect if I don't do that, then all I've done is create a bunch of sycophants who will respond to whatever I tell them. And that's an enormous risk, one that I do not want to take. And, I think that as a leader, I want to know everything that's going on. I don't kill the messenger. I just want to know what's going on.

I have such self-confidence that I believe we can solve any problem that comes up as long as we have a sufficient notice and we have the people able to do it.

Weinstein: Are you very optimistic?

Zell: Yes.

Weinstein: You love to learn, and you don't fear change?

Zell: I'm curious. I have enormous curiosity. I always wanted to figure out how things work. I also want to figure out how to make one plus one equal three. So there's curiosity, there's challenge, there's discipline, there's motivation, and I think, perhaps last, not having the word subtle in your lexicon.

Weinstein: In a nutshell, would you summarize why you have been so successful in business?

Zell: I guess all I would say is that I have been very fortunate in that I have developed an enormous self-confidence, and that self-confidence has allowed me to be different and survive. And therefore, I have been successful as a contrarian. Successful in identifying what I think opportunities are and then, implementing investment strategies accordingly.

Weinstein: You are chairman of the board of nine companies. How do you manage it all?

Zell: I have a pretty reasonable ability to absorb and remember. If you sat here, well, you just saw an example of this. Two guys walked in here, and they literally picked up the conversation that they started with me two days ago, and I didn't need to say "now tell me what you're talking about?" Because I just picked up from what they said and connected to it. What I have the ability to do is to compartmentalize information, absorb enormous amounts of information, and I am able to store it without it confusing me. So I am able to go from one situation to another. I sit here all day long and people tell me about where they are in various scenarios, and I have the ability to keep track.

Weinstein: Do you go home at night, reflect and analyze the new information?

Zell: No.

Weinstein: Do you have people that help you evaluate the information?

Zell: No.

Weinstein: Then, how do you organize all the daily information; How are you able to remember everything, appraise it, put it into compartments and act on it?

Zell: That's what I do for a living!

Weinstein: You have been quoted as saying that "you like to test your limits," and "its all about painting on an empty canvas." Can you support these phrases with an explanation of where you go from here?

Zell: The phrase "I like to test my limits" is something that I believe in very strongly. I believe that we're all put on this earth with different skills, but nonetheless, all of us have skills. I think each one of us has a personal obligation to themselves to maximize the skills we've been given. I don't know where my skills will lead me tomorrow, other than, I have a high level of curiosity, I'm very comfortable with risks, and I certainly do things differently than I did two years ago, ten years ago. And I suspect that the real challenge, "the testing of my limits," will be can I continue to change efficiently and

Biography: Samuel Zell

A native Chicagoan, Samuel Zell is a graduate of the University of Michigan and the University of Michigan Law School. Mr. Zell began his career while an undergraduate by managing apartment buildings throughout Southeast Michigan. He continued his interests in real estate with the founding of Equity Group Investments (formerly Equity Financial and Management Co.) in Chicago shortly after graduation from law school in 1966. With his former partner, the late Robert Lurie, he sought out and capitalized on numerous commercial real estate opportunities during the 1970's and 1980's, building a substantial private portfolio of residential, office and retail assets with a focus on both optimal capital structure and efficient operations. Messrs. Zell and Lurie expanded into the world of corporate investing in the early 1980's.

Their co-investment with institutional investors has raised over \$3.5 billion in funds that have been invested in diversified real estate and corporate portfolios. Mr. Zell opened his real estate portfolio to public investors in the 1990's with the initial public offerings for Manufactured Home Communities, Inc., Equity Residential Properties Trust and Equity Office Properties Trust, three of the largest REITs in their respective asset classes. Today, Mr. Zell pursues his entrepreneurial talents as Chairman of Equity Group Investments, L.L.C., his privately-held, Chicago-based firm that oversees investments in a vast array of real estate and corporate businesses, both public and private.

Mr. Zell maintains substantial interest and serves as Chairman of the Board of the following companies: Anixter International (AXE), a value-added provider of integrated networking and cabling solutions that support business information and network infrastructure requirements; American Classic Voyages (AMCV), the largest American-owned and operated passenger cruise line, operating the Delta Queen Steamboat Company and American Hawaii Cruises; Chart House Enterprises, Inc. (CHI), an owner and operator of restaurants; Manufactured Home Communities, Inc. (MHC), a self-administered and self-managed equity real estate investment trust (REIT) which owns and operates manufactured home communities in 26 states; Equity Residential Properties Trust (EQR), the largest apartment REIT in the United States; Equity Office Properties Trust (EOP), a REIT having the largest office portfolio of any publicly traded, full-service office company in the United States; Capital Trust (CT) a specialized real estate finance company; and Danielson Holding Corporation (DHC), a holding company with interests in insurance and other financial services. All of these companies are publicly traded companies.

Mr. Zell is the immediate past Chairman of the National Association of Real Estate Investment Trusts (NAREIT). He serves on the President's Advisory Board at the University of Michigan, the Visitor's Committee at the University of Michigan Law School, and with the combined efforts of the University of Michigan Business School, established the Zell/Lurie Entrepreneurial Award Program, an innovative attempt to fund entrepreneurial awareness and sensitivity. Mr. Zell's continual assistance to the MBA program has also enhanced the Business School's Polish Studies Program. He was appointed a DeRoy Visiting Professor in Honors at the College of Literature, Science and the Arts at the University of Michigan. He is a long standing supporter of the University of Pennsylvania Wharton Real Estate Center and has endowed the Samuel Zell/Robert Lurie Real Estate Center at Wharton. Mr. Zell is a member of the Visiting Committee of the University of Chicago's School of Public Policy.

Mr. Zell is an avid skier and racquetball player and enjoys riding motorcycles. He is a frequent contributor of articles to various real estate publications and is an internationally renowned keynote speaker.

continue to see and take advantage of opportunities.

Weinstein: Does that also involve opportunities outside the real estate business?

Zell: Well, our world is about 60 percent real estate, and 40 percent other. So, we have a very significant portfolio of investments in companies outside of real estate. We got involved outside the real estate business in 1980. We didn't like the real estate business, at that time, and so we sat down and said, "if we are good businessmen, we ought to be good businessmen at anything," and the basic premise of decision making that is relevant in the real estate business ought be relevant to anything else, and so we said "let's find out if its true." The answer is it is.

Weinstein: I read that when the real estate business was in a difficult economic cycle, you went into the oil business?

Zell: We are in the oil business. We control Anixter International,

Chart House restaurants, cruise lines... all kinds of different and very broad levels of activities.

Weinstein: Therefore, wherever the opportunity is, you're going to go?

Zell: Sure.

Weinstein: Is that what gets you up in the morning?

Zell: Absolutely. What gets me up in the morning is not knowing what's going to come across the transom. By definition, we have "open hands." We look at everything and dismiss nothing. There is no end.

Concluding remarks from

Weinstein: In conclusion, this interviewer agrees with statements by editors of the December 2000 issue of *Realtor Magazine* that although Zell could ride off into the sunset on one of his motorcycles as one of the most visionary and successful leaders in the business world today, Sam Zell will continue to be a key player in the 21st century.