



A CONVERSATION WITH SAM ZELL

Collete English Dixon is the Executive Director of the Marshall Bennett Institute of Real Estate at Roosevelt University and a proud member of the Harold E. Eisenberg Foundation's Faculty Advisory Board. She credits Sam Zell as a major influence in her own career and was honored to interview him for **REAL Bright Night**.

Collete English Dixon: In your book, *Am I Being Too Subtle?*, many of us learned about your family history, starting with your parents' daring escape from Poland, just before the Nazi invasion. As family histories do, it had a huge impact and a foundational role in everything you've done and everything you've wanted to do. What do you see as the impact on your being the son of immigrants? How has that led to decisions in your life and in your career?

Sam Zell: I think that being an immigrant is a unique scenario. We in the United States don't really think about what it means to pick up, leave everything behind and go somewhere else. I was born 90 days after my parents came to this country. I grew up in a house where my parents were learning English at the same time I was. My parents were extraordinarily thankful to the United States for providing them with the opportunity to be here. People born in the U.S. take freedom for granted, but for somebody who has lived under another system and realizes what it really means *not* to have freedom, it resonates, and plays a distinctive role in how you grow up.

I remember my father telling me over and over again that the streets of the United States were paved with gold. To him, this meant freedom. There isn't anything more relevant to me than my freedom. I've been fortunate enough to accumulate a lot of capital, which is just another way of saying freedom, because I have created the opportunity to decide for myself yourself rather than be under the influence of other people.

I also think that being the kid of immigrants means not knowing that you can't do something. A lot of my accomplishments were based on the fact I had no understanding that there were things you couldn't do. The result was that I tried everything; I was more than willing to go farther out on the spectrum. Nobody had inculcated with me with the long list of things that I couldn't accomplish. So, I think that if you've got the strength to pick up your family and go around to another side of the world where you know almost nobody to create a new life, that strength permeates to your children, permeates to you and creates a high probability of success.

Collete: Thinking about the idea that there were boundaries, that there was not a voice that said, *you can't do it...* it appears that this influenced many of the initial career decisions that you made. Is that right?

Sam: I don't think there is any question. I was unwilling to be conventional and that allowed me to choose my own way and make it up as I went.

Collete: On that note, we had a question from a student, Anna Lovell, from Marquette University: "As a college student, you managed a small apartment building in Ann Arbor in exchange for a free room. How did you go about figuring out you could even do that?"

Sam: I went to visit a friend of mine who lived in a single-family house. When I got there, he told me that the owners of the house had just recently bought the house next door and that they planned to knock down both houses to build a 15-unit student apartment building. My instinctive reaction to that story was, "Why don't we go pitch the owner and see if we could get a free apartment in return for leasing and managing the building?"

In retrospect, that showed a level of nerve and self-confidence that was undoubtedly unjustified, but nobody told me that I couldn't do that. I could very logically explain the benefits of us managing the building; we were students and we knew what students wanted. I had no reason to believe that the owners would be willing to hand their property over to two college kids, but that's exactly what happened. They bought our act and that's how we started in the real estate business.

Collete: So that's a great, great story. I think it's a great opportunity for young people to look at ways to be entrepreneurs in this industry. This industry is full of ways to be entrepreneurial and to step out beyond your obvious knowledge. I have to say, just like the commercial real estate industry, your history as a businessman has had an indelible impact on this industry as many of us have grown up in it and as many of us know it now. In the early days, you had a partner, Bob Lurie.

Sam: Yes.

Collete: He was a partner from the time you met in college, I believe. As you may know, the Eisenberg foundation is a dual mission organization. It supports young people entering this industry as a career path. It also supports cancer research at the Lurie Cancer Center at Northwestern Hospital, which was created in memory of Bob Lurie and his fight against cancer. So, the legacies of Harold Eisenberg and Bob Lurie are a powerful potion and one that will change lives forever. Can you tell us how your partnership with Bob Lurie started and evolved?

Sam: Bob was from Detroit. I was from Chicago. We met when we pledged the same fraternity at the University of Michigan. My senior year - after I had taken over two apartment buildings to manage, I was at the fraternity house for dinner and he came up to me and he said, "I've been watching what you've been doing and it's very interesting. If you ever have an opportunity to add somebody, let me know."

Maybe three months later, a third building was offered to us and we needed a manager on the premises. Bob became our first employee. Three years later, after I graduated law school, I was confronted with the classic question of being a big fish in a little pond or a big fish in a big pond. Did I want to go back to Chicago or should I stay in Ann Arbor where I really had a great set up? I decided that I needed to find out whether I could play with the big boys, so I sold everything in the Ann Arbor and moved to Chicago.

One of the things I sold was the management company and Lurie bought it. The last thing I said to him was, "When you want to come play with the big boys, call me." Of course, I had no idea what was next on my agenda, but that sounded like a bravado close. I came to Chicago and after a very short exposure to the practice of law, I became a real estate entrepreneur. Three years later, the phone rang one day, and it was Bob. He said, "You remember the last thing you said to me? Well, I'm ready." So, he basically moved to Chicago and that began our partnership.

I didn't want Bob to ever be an employee of mine. When we started working together, I had 85% ownership of our firm and he had 15%. And then over the first three or four years, we eventually got it to 50-50. From that point on, until he died, we were 50-50 partners and we both suffered the same indignities and challenges and achievements, and that was a very, very special relationship. I was very, very lucky that I had that kind of a relationship for 20 years.

Collete: Is it true what they say that you never really had a formal partnership agreement with him?

Sam: Yes, that's true. Frankly, it never dawned on me. I mean, I'm a lawyer and I understand the legal documents and stuff like that, but it just didn't seem needed. We eventually had one drawn up as he was dying, so that there would be a record for probate. But no, there was never a single example in that 20-year relationship where having a partnership agreement would've been relevant.

Collete: That's an incredible experience.

Sam: We got along. We were both were driven by making a difference. Neither one of us lived commensurate with what our income was. Bob wore 501 jeans and a plaid shirts and work boots to work every single day. Starting in 1969, we ran the first casual office. The objective was always to create an environment where we could achieve success without much focus or care about position or stature in the community.

Collete: You have been a pioneer in entrepreneurship educational programs around the country, starting especially at the University of Michigan, your alma mater. Why is entrepreneurship your philanthropic focus?

Sam: The objective is to make a difference. I've never figured out how putting my name on a building was ever going to make a difference. My goal has always been to create exponential results. As an example, over 20 years ago, we started an entrepreneurship program in Israel that had 22 kids in it the first year. The goal was for those 22 people to either work together or alone to create an entrepreneurial activity and take it forward from there. So, in effect, create a company. At the same time as we created the program, we also created an alumni association. But of course, we didn't have any alumni yet.

Collete: You didn't have any alumni?

Sam: I felt that if my sponsorship of entrepreneurship was going to be what I wanted it to be, then I had to create an environment where you went from the one-year program to the alumni group and that alumni group would mentor the next year's program, et cetera, et cetera. Today we have 384 alumni. They're all entrepreneurs, studying various kinds of companies, playing various roles. Since that program was created, we have monetized some of the companies that were created in the classroom for over \$1 billion dollars.

Collete: Wow!

Sam: Our companies have sold to eBay and Intel and various other world-class names. So, we've made a difference. That's an example of setting out with a goal and achieving it. In the same manner, both at Northwestern University and at University of Michigan, we've created programs and influenced how people orient their entrepreneurial objectives. And to the extent that we've done that, we've clearly succeeded in my objective. In the last seven or eight years, we've begun getting the students and alumni of all three of these programs together once a year to share ideas and resources. That's a culture that you want to create and perpetuate.

Collete: You talk a lot in your book about entrepreneurship not always being a game of success, right? There is definitely rejection. I think a lot of people aren't entrepreneurs because they fear failure. What do I lose if this doesn't work? What happens if this falls apart? You have had overwhelming success as an entrepreneur...

Sam: Remember that part of the definition of an entrepreneur is that the word "failure" is not in your lexicon. Maybe something just didn't work out. But there are no failures. I assure you that over a 50-year career, I've had a lot of scenarios that haven't worked out.

Collete: So how do you handle those? How do you handle the ones that don't work out?

Sam: If the deal didn't work, it didn't work. The real question is - what impact does that have on you? How are you able to get back up on your hind legs and start climbing the wall again?

Collete: So, a lot of people who are watching us and some students are here because they want to understand what makes Sam Zell the impressive, successful man he is. Some of us are here because we want to hear what Sam Zell thinks about the real estate market. We're at the beginning of the year, we have had a transition of power and we are hopefully moving forward in some positive directions, but we have a lot of unknowns. In 1988 you wrote an article entitled "Cassandra" which noted that the "failure to recognize and differentiate between past overbuilding and structural change in demand, use and affordability will be viewed with the same historical reference held by those who opened the gates of Troy."

While, in most markets overbuilding is not the issue, there are structural shifts that are going to affect the industry and, as always, some sectors more than others.

Alex Fisse from Georgia State has a question for you: How do you see the various asset classes coming out of the COVID era?

Sam: The answer to that question depends on which asset class you want to talk about. If you were to talk about retail, I think a fair assessment is that it is a falling knife. We don't know where retail is going, and there's been an enormous diminution of value. We ended up with a vastly overbuilt scenario, not so much because we put up bricks and mortar, but because demand shrunk and went online. So, I consider that to be at one extreme where we don't know the answer. People have talked about retail needing to reinvent itself and I agree with that. How? I don't know. There are a lot of possibilities, but the real question is, does the retail store have a long-term future? Maybe what we're really talking about is converting the malls into downtown community centers and propagating them with community participation in service industries. That may happen, but it would make them a lot less attractive as an investment.

Let's move over to office space, currently the subject that everybody's talking about because so many are now working from home. I think that most of the discussion about working from remote locations is going to turn out to be irrelevant. We are social animals. We interface with each other. We create progressive results from one-plus-one-equals-three. As soon as the central business districts are back and alive and vaccines are pervasive, you're going to see the office space market go back to where it was before.

You've got to build a community; you've got to maintain a culture and you can't do that remotely. You can't motivate by modem. You can't evaluate performance through a screen. It's just not logical and, frankly, depending on what business you're in, it can be very dangerous. In a business like mine, where we're taking risks every day, being less and less connected with the people is not a formula that is likely to work well over a long period of time.

On the other hand, you've got to recognize that the office market generally is oversupplied. Before COVID, we had the creation of work-sharing space companies like WeWork. They absorbed three to four percent of all the office space in America in a relatively short period of time. That artificially created a demand factor that led to further new construction. Here in Chicago, we have five one-million square-foot buildings that are being completed. We don't have five one-million square feet worth of demand, but our statistics are manipulated by the creation of all this space for which there are now no tenants. I think that's true all over the country.

We've seen the same thing happen on the multifamily side. The difference is that you really didn't add supply when COVID moved people out of downtown and into remote areas.

Anybody who thinks the migration to remote areas is a permanent move, I got a bridge to sell you. If you go to Podunk, every day at 5:00 is the same and there's nothing to do. The difference is that in Manhattan, you've got 27 things to do.

As for all the discussion about the suburbs, the more meaningful shift – and the biggest single demographic change in the United States over the last 20 years – has been the deferral of marriage, which has resulted in couples delaying having children by six or eight years. An awful lot of people who have moved to the suburbs were on their way to the suburbs anyway, just 10 years later than the generation before them did. So while there's been a definite decrease in rents, particularly in the major cities, I think as they re-open, occupancy and rental rates will increase accordingly.

You could then go to hospitality. The devastation in the hotel business has been pretty awful. I think a lot of second- and third-tier hotels may not end up being hotels anymore. Maybe you end up with permanent hotel-like facilities converted for social usage, maybe for the homeless.

There's been a lot of discussion about people not traveling anymore, not going to conventions, et cetera. I don't believe it. You can do a sales call on Zoom and it works great until some competitor says, "Gee, if I went and sat across from that guy, I might be able to do better." And then he does; he gets the deal and now to compete others have to do the same. I think we're going to go back to conventions, back to people creating relationships. I don't see that changing, though it will restart slowly. There's also a huge buildup of tourism demand. People have been locked up for almost a year now. I think that there's a recovery on the horizon.

The last two asset classes in the real estate space would be single-family rental and industrial. Single-family rental has been turned into a pretty big business...or it was always a very big business, but it's become more organized to some extent. I would remind people that the single-family business has historically been very subject to periods of oversupply. There's never been a shortage of builders who could build. There's a lot of new construction going on right now. You now have builders building single-family homes for the sole purpose of adding to the rental pool. I'd be waving a flag about oversupply in this sector.

I would say the same thing about distribution and industrial. It's the simplest form of real estate. You're building a box with big tents. Obviously we've seen enormous movement in the amount of online retail and that's creating immediate demand for an enormous amount of distribution industrial space. I would be cautious about the supply and demand situation here as well.

Collete: Let's just talk about one general, economic factor. I would love to get your thoughts on the impact of global cash flows or global investment to the United States. Now that the deficit exceeds the GDP, do you think there's going to be an impact on capital flows for the next few years? I know one of our sponsors, Dave Neilson from Old Second National is incredibly interested in your thoughts on that.

Sam: It starts with the fact that the single biggest risk to the United States over the next 10 years is the loss of the dollar as a reserve currency. A lot of changes have been made and a lot of indexes have been created that have altered the scale of the US dollar. If we were not a reserve currency today, the very issuance of debt would be extremely dangerous and could easily lead to runaway inflation. In the meantime, however, I think that we're capable of handling a lot more debt, providing the debt is invested appropriately. Historically, we borrowed staggering amounts of money to build the interstate highway system, but then the interstate highway system ultimately produced enormous economic benefits to our country. In the same manner, if we run debt and use it in productive fashions, the country can easily exist with a lot of debt. If we instead run up debt to enable and disincentivize our population, then it will ultimately engulf us.

Collete: Do we have to worry being engulfed because we're using debt for the purposes of helping to support recovery from COVID and to rebuild the economy? Is that bad debt?

Sam: No, not necessarily, depending on how it's used. I mean, if we're sending checks to people who make \$150,000 a year, then I think it's very poorly used. If we're spending money to get through a difficult period, that's a very different thing. The highest debt that we've ever had was during World War II, but it was productive. It was towards an objective. We've got to make sure that we don't allow the negative financing approach to be the solution for everything. People have talked about modern money management and that in theory you can borrow forever. Well, I don't believe that. I think allowing borrowing to get out of control is a very dangerous scenario.

Collete: Let's give some advice to our students so that they have a chance for Sam Zell to help them figure out what not to do for their career or what opportunities they might want to think about. When you're looking at new hires, what traits are important to you?

Sam: I want somebody who's smart, but I'm much more interested in their level of curiosity, their level of motivation, their level of being able to work with a group of people toward group objectives. I want them to be pragmatic. I want them to understand risk.

Collete: There has been increasing discussion about the value of mentorship. I have to admit when I started my career, I don't think I had one and when I look back on my career, there were a lot of mistakes I would not have made if I'd actually had the value of a mentor in my corner. How can young people identify mentors for their careers and for their lives?

Sam: It comes down to accessibility. I've run my business for 50 years. Three or four years ago, I discovered that there was a door to my office. I never closed it, so I didn't pay any attention. I'm accessible, available, and visible to everybody. I think it's critical to create an open and motivated community. Mentoring is the day-to-day access to people who have more experience than you do and from whom you can learn. That's really the ultimate definition of mentorship.

Collete: That really means that young people need to think about the culture of the firms that they consider going to work for.

Sam: Without question. I mean, I can't tell you how important culture has been to our success. Start by looking and listening. The top dollar isn't necessarily the answer. Look to the future and say, "How will working in this environment develop me to become more and more valuable going forward?"



Watch the full interview online at:
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