Michael Levy:

I am constantly meeting people in the business who are telling me stories of, they started their careers at Trammell Crow. All over America. I can't even begin to peel back the history. I joined eight and a half years ago. All of this occurred long before me. I benefit from that. But you're talking hundreds of individuals, dozens of companies that can trace their roots back to this firm. The direct lineage coming out of that all over America today.

Matt Slepin:

Hi, this is Matt Slepin, and welcome to Leading Voices in Real Estate. Today's episode, recorded on March 28th at the Crow Holdings headquarters office in Dallas, is with Michael Levy, the CEO of Crow Holdings, a company that we in the real estate business think we know well but will know a lot better after listening in on today's episode. A bit of a setup here. Crow's headquarters is at the old Parkland Hospital campus, which the company acquired in 2006 and has extensively redeveloped with deep renovations of historic buildings, new buildings, and amenities like the clock tower, which we discuss on the show.

We all know to a greater or lesser extent the history and influence of the Trammell Crow Company in the real estate business. And in the conversation Michael and I get to talk a lot about the Crow family tree of people and companies in the discussion. Two thoughts for the listener: first, we've told the Crow story and ripples of influence multiple times on Leading Voices, and this will not be the last time we cover it. I had a colleague once who tired of my giving context and history prior to starting up every search. For me, though, context and then strategy is a prerequisite to action.

And in our business, and this is clearly one of the themes of Leading Voices through the years, the places from which our business has evolved to its present state is really key to understanding where we're at today and where we will evolve to tomorrow. And in addition to context, clearly history, tradition, values, and longterm relationships drive what Crow Holdings has decided to become.

I did not get to meet Harlan Crow, and you can read all kinds of things about him in the press, but the Parkland campus and the business model for Crow Holdings is clearly an embodiment and reflection of his injecting his vision of that history, tradition, values, and relationships into their business going forward. Listen to Michael's articulation of the company, its business model, and indeed its history. And within that you you will hear these drivers. I'm a somewhat cynical guy, so I try in these conversations to distinguish pablum from reality around stuff like culture, which is easy to talk about but hard to walk the talk. You get to choose, but it's pretty clear from the conversation and others I've heard that Michael's articulation is about the real thing.

I was joined at this interview by my colleague in the real estate search practice at ZRG, Larry Krema who, prior to his search career was chief human resources officer at both Simon Properties in Indianapolis and for Sam Zell at Equity Office in Chicago before it was sold to Blackstone. I will tell you, in working with Larry and working with CHROs among our clients, it's the people, culture, and business platform where authenticity, in other words walking the talk, is uncovered. In search, the realities of culture and definition of a company's business platform are the drivers of our work. Hide to hard that stuff on our side of the business.

I hope that you'll enjoy this conversation with Michael Levy. This is definitely one to share, which is easy to do through your podcast app, and I'll hope that you share this and the Leading Voices series with your friends and colleagues in the business. We have a deep library of conversations with alumni of the Crow organization. I will call out conversations with Lucy Billingsley, Trammell Crow's daughter and sister of Harlan, Ron Terwilliger, Ned Spieker, Walt Rakevich and, if you dig beneath the surface, many others. So go back to the archive and check these out.

If you have comments on the show, thoughts for guests or, importantly, if you have questions about how ZRG can help your firm through recruiting strong talent for your team or in advisory work relating to the human capital business platform of your company, please email me at mslepin@zrgpartners.com. Thank you, Michael, for being on the show and hosting me and Larry at Parkland. And looking forward to more conversations on this topic to come.

Michael Levy, welcome to Leading Voices in Real Estate.

Michael Levy:

It's great to be here, Matt. Thanks for having me.

Matt Slepin:

And here is your office. And we're going to start the conversation talking about your office, actually, and talking about tradition, and then we're going to get to what Crow Holdings is today in the real estate world. But the history is so important for our real estate business, and the tradition is so important. And being in your office has more history and tradition than any other office I've been in the real estate business across America. And there must be meaning to why it feels that way.

Michael Levy:

Yeah.

Matt Slepin:

So maybe start there, and then we'll get into stuff.

Michael Levy:

Yeah. That is great, to start there, and I appreciate that, and it's great to have you down here.

Matt Slepin:

Thank you.

Michael Levy:

Thanks for coming. Dallas was effectively formed in the early 1870s by the crossing of two railroads. The population, I'm going to get this wrong but in 1870 there were 3,000 people in Dallas. Really the city was Fort Worth, where the cattle crossed from Mexico to Colorado, and the slaughter yards were there. Dallas was just a little hamlet and the mayor of Dallas got two railroads to cross. And back then, in 1871, that didn't happen in many places in America.

Matt Slepin:

Right.

Michael Levy:

And the town shot up from 3,000 people to 30,000 people in a few years. And that also set the culture for Dallas, which is until today. And the culture of Dallas is hospitable, because you've got to welcome people in, and commerce, because that's where two railroads crossed. By the early 1890s the city had grown to a point that the county or the city needed a hospital. And on the site you're sitting, in the building that you're sitting in, or a predecessor to the building, was the first hospital in Dallas. And it was built up on the hill. You don't realize today, but this is on a hill relative to the surrounding areas. And for ventilation, they built the hospital on this site.

And what is now the highway, North Dallas Tollway, next to us was a railroad crossing. And so this was the location of the first hospital. That building burnt down around 1910 and the building you're sitting in was built in about 1913. And this campus that we have today was run as a hospital until the 1950s, and then a new Parkland hospital was built. And this continued to run in a bunch of institutional uses up until I believe the 1980s. And then it was boarded up and vandalized and graffiti-strewn, and this part of town became a difficult part of town. But by the early 2000s this part of town was recovering, as Dallas had been recovering, and this area was slated to be demolished, and apartment buildings were going to be built. But Harlan, who has been a great collector of American history most of his life, saw this very traditional architecture and said, "I'm going to take that building and make that my office campus."

And what started out in, I think that was 2005, give or take. And by about 2008 he had renovated this building that you're sitting in consistent with what it looks like today. But then coming out of that experience, it was, no, it's not only going to be my office campus. We're going to create an office campus for all sorts of people in Dallas. And now you see 11 buildings that have been built since that period of time on this campus that all look like they were built at the same moment in time, with all the same architecture. And so everything you're looking at, other than this one building outside of this building, is relatively brand new.

Matt Slepin:

Even the bell tower. I just learned this because I'd assumed, walking around the neighborhood, which I did, that the bell tower was here when the original hospital was here, of course.

Michael Levy:

The bell tower. The campus is relatively low-rise buildings.

Matt Slepin:

Yeah.

Michael Levy:

Three stories, four stories. And this area, over the next 20, 30, 40 years, it's going to grow and the buildings are going to be really tall. And so to have a presence in the community coupled with, as you can see, it looks like a college campus. You'd expect it in Virginia or somewhere like that. Every European town has a bell tower or a campanile.

Matt Slepin:

Right.

Michael Levy:

And so in that sense of community, the bell tower was built. And the plan was to start it early 2020. Well, we all know what happened in early 2020.

Matt Slepin:

Right.

Michael Levy:

So COIVD hits in early 2020, and we decided to proceed with the bell tower. And that was really important at that moment in time because people were really concerned about work and their jobs, and it created opportunity for all of the construction workers and the contracting company. And we built that gorgeous 240 foot bell tower starting from the beginning of COVID. And I can't remember. It probably took us a year to build it entirely. And its theme is opportunity in America. And this whole campus, the theme is the American experiment. And then there are sub themes on campus related to altruism or opportunity in America.

Besides the beautiful architecture that you see, as you know, and people won't be able to tell by the podcast, it's also effectively a museum. And the art and manuscripts and statues primarily relate to the American experiment, going all the way back to the Greeks with respect to the idea of democracy, through the enlightenment period, all the way up and through, let's just say Teddy Roosevelt and that period of time in America. The other element that makes this campus work is the programming. The delivery of the intellectual content. The amount of discourse and debate and speakers. So for example, yesterday we had, I believe the number was 27. It might've been more of the nation's most important universities.

Matt Slepin:

Yep.

Michael Levy:

Their presidents, chancellors, chairs of the board came down here to have a discussion on how to restore the integrity and credibility of American universities.

Matt Slepin:

Yeah.

Michael Levy:

We are constantly hosting groups. It might be on academics, it might be on business, it might be on politics, it might be on science.

Matt Slepin:

Right.

Michael Levy:

And the people in our community here, not just the tenants at Old Parkland but other people in the broader community, are invited to many of these events, and we curate that. And so that's a really important element of this campus. And I would just say on this last piece, anybody can build a beautiful building, but to truly create a sense of community... I think in the real estate business we talk all the time about place-making.

Matt Slepin:

Yep.

Michael Levy:

And I think folks in the retail business talk about that a lot, right?

Matt Slepin:

Yeah.

Michael Levy:

But in the office space, to be able to create that community, it is unique. I'm not aware of anywhere in the country that has an office community. And virtually all of the folks that are tenants here are principal investors. Family offices and their foundations, and private equity firms. And so it's a like-minded group in terms of looking to engage in the investment business together.

Matt Slepin:

Right. So how much of that... talk about either altruism or civic engagement versus business. And then we're going to get to Crow Holdings and the story. But I'm curious. If you build the bell tower and if you have these civic engagements here... and walking around the campus, it feels calming and deep and wonderful. It feels like I'm in a museum. I sat on the front porch today. I was half an hour early on a conference call, on a rocking chair in the rain at your headquarters. It was lovely.

Michael Levy:

Yes sir.

Matt Slepin:

How much of that is business and how much of that is Harlan can be altruistic? What's the mix of that decision?

Michael Levy:

I think if you spoke to a real estate investor with respect to the economic returns of Old Parkland, they would probably have no interest in participating in the economic opportunity for us in creating this venue for America. And so there's a tremendous amount of altruism, and it's one of the most important things to him at this moment in his life.

Matt Slepin:

Right. And some of this, we're not going to talk about it, has been reported. Pictures of some of the sculptures in the gardens and stuff like that, which has been known in the media.

Michael Levy:

Sure.

Matt Slepin:

And God bless that. So here we are.

Michael Levy:

Absolutely.

Matt Slepin:

So talk about-

Michael Levy:

And thanks for asking me all that. I appreciate it.

Matt Slepin:

No, it's a wonderful start to the conversation. And then I'll take the same strand, and this will be a bit of a longer journey. And we've discussed this journey on the podcast three, four, or five times with former Trammell Crow company executives, and we'll tell the story yet again some other time, but talk about what Trammell Crow did in his partnership model and why that resonates in the real estate business. And then we'll get to when Harlan had to take over and save that model, maybe.

Michael Levy:

Yeah.

Matt Slepin:

But start with the partnership model and what that means in the real estate world, and why it's so influential to this day.

Michael Levy:

Well, obviously this all happened long before I was alive and before I joined, but he was a poor kid from east Texas and he married a woman whose parents had died and left her a grain business here in town. He grew up in the Dallas area, and she did as well. And it was a modest little business, but he inherited that effectively. And he had a tenant that needed more space than he could provide. And so he built a building not far from here, but he built a building that, that tenant was going to take half and then half of that building he was going leave open and find a tenant. And then he found it. That was a spec industrial business, and the first of its kind. Nobody did that back then, and so he continued to do it. In order to grow he had to partner with people, but he didn't have a lot of money. He couldn't build a big company.

Matt Slepin:

Right.

Michael Levy:

He didn't have the money to pay people, and so he adopted a business model, was he would find an enterprising individual and he would say, "Listen. I will partner with you." And he had developed some credibility with banks. And the younger people may not realize it, but back then you didn't have these things called promotes. What you had was banks that would lend you 110 cents to build a building. And so the bank was their partner. And Trammell had credibility with banks, and so he could sign and get lending. And so he would go to a marketplace and find an enterprising young individual and-

Matt Slepin:

Ned Spieker, for example.

Michael Levy:

A Ned Spieker, and say, "Listen, we'll partner. We'll split the ups 50/50, and I'll effectively help put you in business because I have the credibility to provide the financing. And you can do the sweat equity to find the site and build the building." And that business model flourished. And all across America, all these millionaires were being made in the real estate business on a completely new business model that others didn't have at that point in time. And that business model to this day survives across America in lots of different firms.

Matt Slepin:

Right. Ron Terwilliger was also on the podcast. I think he used to go around saying, "Well, I minted 50 millionaires." Millionaires are different now than they were before, so maybe it has to be a billionaire now, but it was the truth. That was what the model was.

Michael Levy:

Correct.

Matt Slepin:

And it was a replicable model. Lincoln split off and went and did the same thing. Heinz had his own version of this. So that was the business model for the business. Then the SNL crisis came.

Michael Levy:

Yes.

Matt Slepin:

Which upset the apple cart a little bit, and maybe Harlan had some hard work to do. So talk about that phase.

Michael Levy:

Well again, to get that financing your personal recourse. And so again, the younger listeners may not realize, but the Tax Reform Act of 1986 that effectively upended, destroyed the real estate business, as the largest or one of the largest real estate developers in America who was borrowing at relatively high levels, who was personal, you can imagine all of that came to an end. And at that point in time, Trammell put Harlan, or Harlan assumed charge of restructuring ultimately hundreds of partnerships to get to the other side. And he spent the better part of the 1990s unwinding hundreds of partnerships with partners, addressing all of the consequences of that.

Matt Slepin:

And the partners had some liability also.

Michael Levy:

Correct.

Matt Slepin:

So they co-signed?

Michael Levy:

Correct. And so these were very difficult times, and lots of challenges for all of these individuals. And ultimately how you handle yourself during that period of time, but very, very difficult period of time for all of these people, the Crow family and all of these hundreds of people. And so many people had to leave at that point in time. Not everybody, because the business was on the verge of bankruptcy but it didn't go bankrupt. Harlan worked that through. '91, '92. Then a number of IPOs were completed that helped... Wall Street was bailing out Main Street.

Matt Slepin:

So let's name some of those companies that still exist today.

Michael Levy:

Sure. Gables and BRE and Avalon Bay and Wyndham Hotels, and the last IPO was Trammell Crow Company. And Trammell Crow Company at that point in time was a small real estate services company. They would do leasing and brokerage and other activities. And that was taken public in 1998.

Matt Slepin:

And one comment to this before we get to what happened to the Trammell Crow Company is, the individuals who were in individual cities, some of them became part of Gables or part of BRE, part of these other companies.

Michael Levy:

Sure.

Matt Slepin:

But a lot of them had the DNA and experience, and they continued in their city. Ned Spieker's one who had split off.

Michael Levy:

Absolutely.

Matt Slepin:

But I have lots of friends, particularly who were Trammell Crow Residential, they were area partners in a city. They then went off and ran their own business. And it might still be city-bound, not a name you know today as a national name, but they had the DNA to do that, and the training from this business.

Michael Levy:

I am constantly meeting people in the business who are telling me stories of, they started their careers at Trammell Crow. All over America. I can't even begin to peel back the history. I joined eight and a half years ago. All of this occurred long before me. I benefit from that. But you're talking hundreds of individuals, dozens of companies that can trace their roots back to this firm. The direct lineage coming out of that all over America today.

Matt Slepin:

And is there a benefit to this firm? That's the wrong word to ask. But the alumni club, and we're going to talk about another alumni club that you're a part of, Morgan Stanley, in a little bit. But that alumni club, they like to do business together, so it makes a friendliness within the industry that may be a little part of why we always say, "Real estate's a people business." But some of those connectivities have been there a long time through stuff like that.

Michael Levy:

Of course. It's goodwill in your own career when you work with people and you have good experiences, you carry that through your life and you carry that through. One of my greatest joys is doing business with people that I grew up with in the business. And so how does that benefit us today? There's no direct pecuniary. There's no direct line, but it's reach, it's access, it's credibility, it's the benefit of the doubt, it's the first call, it's the last look. All of those things are a function of the relationships that you have with people. People may say it's a brand. That brand is a function of the relationships of people. It's not the reverse. The brand doesn't create it, the people create it.

Matt Slepin:

I think brands, I find that a flaky word because I think of Corn Flakes or something, or Frito-Lay. I don't think of something as deep as what you're describing here. So anyhow, I'm picking at the word brand. Okay, so let's go back to the story. So the Trammell Crow company went public. We'll then talk about what happened to it in a moment. But then what was left here and what was Harlan holding that were the germs of the seeds of what it became?

Michael Levy:

Through all of those restructurings there were some assets, some properties that the family was able to hold on, right?

Matt Slepin:

Mm-hmm.

Michael Levy:

Again, they took the services company and IPOd that, so that was now gone. And they were left with assets and a small amount of cash. But that allowed Harlan to start to begin to rethink. Oh, and it's very important: Trammell Crow Residential was not part of Trammell Crow Company. The apartment development company, that was not something that disappeared. That was started in 1977 and that survived to this period of time in partnership with Ron Terwilliger.

Matt Slepin:

So TCR stayed.

Michael Levy:

Yeah.

Matt Slepin:

That stayed. Gable spun off. Divisions spun off but the company stayed within the family.

Michael Levy:

Correct. The development company, the machine that created all of the real estate on the apartments side, stayed. And so Harlan had the interest in Trammell Crow Residential. The family had the interest in Trammell Crow Residential. It had a number of assets. I know some of them. Many of them have been sold since then, so I can't tell you exactly what the portfolio looked like, and some amount of cash. But had expunged all of the liabilities, and came out of the experience and said a couple things. One, "Never again will we do personal recourse and borrow at that level, and never again will we be just one asset class," meaning just real estate. And so then, beginning in the late '90s, Harlan and other people who are still here today, Anne Raymond, who's been with us so long and is on our board, and Bob McLain, who's been with us for 37 years. Ken Valach, who's been with us 35 years. These people were here.

And so that was a really important part, that notwithstanding all of those people that left and went to do these very important things and needed to do these very important things, there was a great group of people who continued to stay on with Harlan and the family, that allowed Harlan and the family to begin a rebuilding process.

Matt Slepin:

And so that's at, what year are we up to now?

Michael Levy:

Let's call it '98.

Matt Slepin:

Okay, '98. Now, let's go back with one story and then come back to this story. So Trammell Crow company then eventually sold itself or was acquired by CBRE.

Michael Levy:

I believe it's 2006. I believe that was the acquisition year.

Matt Slepin:

Right. And one of the interesting things, just talking about DNA, is from a people standpoint it was almost a reverse merger because it felt like the leadership from the Trammell Crow company became the future leadership of CBRE.

Michael Levy:

I think that's an accurate statement.

Matt Slepin:

So we can leave that one there because that's a different business and it's outside you guys.

Michael Levy:

Correct.

Matt Slepin:

Okay. Let's come back to your story.

Michael Levy:

Okay.

Matt Slepin:

Because your story changes again with the GFC, somewhat, and then you joined a little bit after that. So I want to get back to what this became and what it was. But I know, with the GFC, because you kept Trammell Crow Residential, there was another moment in time when that had to be split apart again.

Michael Levy:

Let me just, for the listeners to understand, just go back to '98 for a moment because it's a seminal year. In 1998, Harlan started a real estate investment business, and started with his first fund in 1998. And that has now, over 25 years, grown into an important real estate investment management business.

Matt Slepin:

Yeah.

Michael Levy:

He also began to invest in non-real estate investments, stocks and bonds and hedge funds and other things. And that's grown up over time. So those two things. You went from a pure play development company to now a more diversified investment firm, but obviously with a core capability in real estate ownership, real estate development, real estate investment management.

Matt Slepin:

Okay.

Michael Levy:

Go through the financial crisis and it grows. And it continues to grow. And day by day, step by step, week by week progress, and fund one becomes fund two, and fund two becomes fund three.

Matt Slepin:

Yep.

Michael Levy:

And the real estate development business is growing again in the overall marketplace. And Harlan begins to acquire some land to restart the industrial development business. And the investment portfolio's growing, and then the financial crisis comes. And like everyone, okay, we're going to see what happens here and take a step back. Now, the firm was in a completely different place. We were diversified.

Matt Slepin:

Right.

Michael Levy:

We had no personal liabilities, right?

Matt Slepin:

Mm-hmm.

Michael Levy:

We had all of these activities beyond development. And so the strength and stability of Crow Holdings... and the firm was rebranded Crow Holdings after the IPO of Trammell Crow Company, as you can imagine. The strength and stability of the firm, even though it was a terrible moment in time, and I wasn't here then but I know the facts, we were in terrific shape. There was no stress at Crow Holdings. And so everything that Harlan did proved out to be true. He was determined to build financial strength and stability for the firm. To be able to support the people that work here and the opportunities in front of us. But within that, now you have Trammell Crow Residential, specifically that entity

Matt Slepin:

Right.

Michael Levy:

And Trammell Crow Residential, while it was not personal recourse, it was still borrowing 75% LTV, mezzanine loan, senior loan-

Matt Slepin:

Biggest developer in the country.

Michael Levy:

Biggest developer in the country. And 2008 was a very difficult time to be in the apartment development business. And so over that period of time the company was restructured, and it was effectively structured into, in the work I was doing at Morgan Stanley at the time, good bank, bad bank.

Matt Slepin:

Thank you for using those words. I was going to ask those words. I was scared I'd offend you.

Michael Levy:

No, it's fine. And so there was a recapitalization. Let's just call it The Good Bank, for lack of a better word. There's a recapitalization. I'm going to get this wrong because it happened before my time, but I believe it was the state of North Carolina, I think, and Rockwood, I believe. Okay, thank you. It's been a while since I've told this story. And they recapitalized the business under the name Mill Creek.

Matt Slepin:

Yep.

Michael Levy:

And a number of people, including great people at Crow, Charlie Brindell and others, went to Mill Creek to go on their journey, and recreated Mill Creek. Well, there were still quite a number of properties and assets that were at Trammell Crow Residential. And Ken Valach, who had grown up underneath Ron Terwilliger and was a leader in the business, he became the new leader of the business.

Matt Slepin:

Yes.

Michael Levy:

And now we're in 2010 and 2011 and Trammell Crow Residential is getting back on its front foot. And so obviously you're working through your challenges, you're paying off-

Matt Slepin:

Solving the bad bank.

Michael Levy:

You're solving it, you're paying off lenders. Every lender was paid off in full. Every lender was paid off in full. Every deal was worked through. And now you begin to say, "Okay, we're now going to go back on our front foot. We're going to find pursuits and we're going to start building again." And the company, Trammell Crow Residential under Ken's leadership, began to build again. New offices were opened. People stayed with us. Not everybody went to Mill Creek, so a team stayed behind.

Matt Slepin:

I think you had like... Ken and I visited yesterday, so I'll quote him a little bit. I think you had two or three offices.

Michael Levy:

Yeah.

Matt Slepin:

So you did have some people stay. But then he rebuilt this. And this will get to who you are today both in the residential space, to be one of the top five or six merchant or builders, and then also in the industrial space. And we'll talk about other building, including office, the dirty word of our universe. But that growth is phenomenal to come from the Phoenix rising because it was the bad bank. There was nothing left.

Michael Levy:

And again, I joined in 2016 so you're going to have to bear with me in terms of what year, what happened.

Matt Slepin:

Yeah, yeah, yeah.

Michael Levy:

But yeah, Ken is a very special... as you know, he's a very special human, he's a very special leader, and he's an incredibly talented man. And so he, along with some other people that were here, began to open some new offices. How do you open new offices? You go and find talented people in that market and you see if they're interested in joining you in this journey together. And so we were able to, given our network and our relationships, market by market. And we decided strategically, what are the best markets to be in? Generally speaking for us, we want to be in the larger, more liquid growth markets, generally speaking. I think we all know what those markets are. And so-

Matt Slepin:

They've changed, I'll tell you, living in California. Those markets have changed from time to time, from the Sun Belt to-

Michael Levy:

Yeah. And we can talk about that.

Matt Slepin:

Yeah.

Michael Levy:

But over time we opened an office in Seattle, we opened an office in San Francisco, we opened our office in Los Angeles, which is actually out of Carlsbad to cover both San Diego and LA and that area. We opened an office in Denver. We had our Dallas office, we had our Houston office. We opened an office in Austin, opened an office in Atlanta.

Matt Slepin:

And when you say those words, are those words apartment offices or... apartment, industrial, or both?

Michael Levy:

I'm just talking apartment because the industrial has a different story.

Matt Slepin:

Okay.

Michael Levy:

So today, I'm going to get the number wrong, but we're in 16-ish markets, I think. We are right now looking at another major market that we haven't been in to add another market to the company. And we've also been careful not to go into the smaller, less liquid markets because things cycle. And you know what happens when things cycle. The smaller, less liquid markets are more difficult to operate in and sell assets in. And so we've been very careful about staying in the larger markets. And by the time I joined in 2016, that build-out, it wasn't complete but it was almost complete. If we have 16 offices today, I'm making numbers up, we probably had 12 at that time.

And so [inaudible 00:29:53] built out the offices and we used our balance sheet to find land and then entitle land and ultimately find investment partners and build buildings with. And in that business, as you know, we self-perform. We're a general contractor in the space, and so we're a developer and a general contractor. So we have a large operation and a large team that supports that. And that company today, and we can talk about this current cycle, but it's in fabulous shape with tremendous opportunities in front of me.

Matt Slepin:

Well, we'll talk about the current cycle in a little bit.

Michael Levy:

No problem.

Matt Slepin:

Because one of the surprises from the conversation with Ken is how deep you are in pursuits of new apartments, where most of the business is really quiet and nervous right now still.

Michael Levy:

Okay.

Matt Slepin:

So we'll come to that.

Michael Levy:

Great. Let's stay back with this time.

Matt Slepin:

Okay. Now we're inching forward to when you joined, so maybe let's get to that as the next event in the story here.

Michael Levy:

Let's stick with... because you asked about industrial, which has a different story.

Matt Slepin:

Okay.

Michael Levy:

But let's stick back with time. I mentioned earlier, I believe I mentioned that, prior to the GFC, Harlan had decided to get back in the industrial development business.

Matt Slepin:

Yeah.

Michael Levy:

And he acquired some land here in Fort Worth and he personally, and one young man who was working on the team here, started to entitle the land and begin some industrial development. But the global financial crisis came and that slowed things down. But Ken was on board now full-time, leading the apartment business. And Harlan was spending his time beginning to build some industrial buildings. Himself and a young man on the team here restarting what his dad started in 1948, an industrial development company.

Matt Slepin:

Yeah.

Michael Levy:

And so 2010, 2011, 2012, 2013, it's really one office. It's the Dallas office. But we're working and developing some properties. Ken is having some progress, and I don't know what year it is. And Harlan asked Ken before I joined, can you oversee the industrial development business? Well, when I joined, at that point in time we had, I think, two or three offices and we were developing industrial real estate in the United States. Probably at that point in time, I'm going to make the number up, a couple million square feet a year. So it was a small but relevant business. And we spent 2016, '17, and '18 building out our team.

Matt Slepin:

Yep.

Michael Levy:

And we are in a dozen of the largest, most important distribution markets in the country. And so today the industrial development business and the apartment development business are broad national-scale businesses, and we're largely in the markets that we want to be in.

Matt Slepin:

And if you were to pick any two property types to have been assertively developing in the tens, that would've been apartments and industrial, so good selection.

Michael Levy:

There's certainly some strategy to it. You say, "I'd rather be lucky than smart." This wasn't just lucky. This was, we've been doing this a long time.

Matt Slepin:

Yes.

Michael Levy:

We've learned a lot of lessons, and we like the attributes of both of those sectors.

Matt Slepin:

Let me go back in history with just a funny anecdote because we were talking about it earlier this morning, is when I started my career in search 25 years ago or so, when I would interview people who had come from the Trammell Crow company in its earlier phase, before the company went public and all that stuff, they all came from Harvard. They were all recruited to come from Harvard to go do this thing. And they all started in industrial leasing. That was the model. Walt Rakowich was on the podcast. He said, "Yeah, I started some dumb-ass property down in wherever, in Southern Cal." And that's how he got his start in the business. And that was the training model.

Michael Levy:

That was. Absolutely. Trammell demanded it. If you wanted to be a developer working for Trammell Crow, you needed to start out as a leasing agent

Matt Slepin:

And as a lease... it's funny because so many of the recruits were from HBS. And to think of taking someone and forcing them to go back versus, okay, we're going to put you right into leadership, was a great model.

Michael Levy:

Long before my tenure. I can't tell you what those young men... although Bob McLain was one of those guys. And Ken started out in property management.

Matt Slepin:

Yeah.

Michael Levy:

He did not start out as a developer. He started out in property management at the firm. I think people were attracted because Trammell had a model that created, as you said, millionaires across America at a point in time where that was not easy to achieve working for someone.

Matt Slepin:

Yeah. So are we ready to have you enter this company at this point in time? We've gotten through most of the history.

Michael Levy:

Yes. I think that would define what we were doing at that point in time.

Matt Slepin:

Okay. So then you joined in '16. And we're going to talk in a minute about what the holistic business looks like but, first question, and I've heard you on other podcasts. We don't have to tell your life story, but why you? Question one. And then why them for you? What was the attraction for you? And Jewish kid from New York to move to Dallas. Give me that connection and why this works. Why they wanted you. And I'll enter Morgan Stanley as a question in there, too. There's a little bit of soup.

Michael Levy:

I can clearly answer the second part better than I can answer the first part because I know what was in my mind. Harlan had made the decision. I believe it was 2014. He had hired McKinsey. He was not 65, but approaching that point in one's life where you start to think about your own path. And hired McKinsey to come and do a strategic review. And that helped just create a framework. It's not that they gave them so much insights, it just helped the organization begin to think about what it wanted for the next chapter. And he had made the decision that they wanted to find an individual who had a different background.

It had nothing to do with me, of course. Nothing to do with me. And I can't tell you if that background was, we definitively want a capital markets person, but fundamentally they wanted to go into the marketplace and find somebody with a different background. And they hired a recruiter. And working in New York and being at a large financial services firm, pretty much lots of people know you.

Matt Slepin:

Yeah.

Michael Levy:

And so I'll move into my motivation.

Matt Slepin:

Yeah.

Michael Levy:

So I got a phone call from a recruiter that I knew, and they told me what was happening. And I never had really touched the Crow organization in my career. My career was much more New York, Wall Street-oriented.

Matt Slepin:

Right.

Michael Levy:

Crow was more Main Street although, footnote, one of the first deals I worked on in 1994 when I was a young investment banking associate at Prudential Base Securities was the recap of the Prudential-Crow industrial venture with two guys, one of whose names you'd never forget. One was a guy named John Thomas, who was at the firm, and the other was Jim Hendrix. And you're not going to forget when you work with Jim Hendrix, so that's a footnote. But since that deal I had never touched the Crow organization. I didn't know any of the Crow people.

Matt Slepin:

Right.

Michael Levy:

But when the recruiter called me and said, "Would you be interested in meeting with Harlan Crow?" There's only one answer to that, isn't there? Yes.

Matt Slepin:

I'll take that meeting. Sure.

Michael Levy:

I'll be happy to. And when I came down here and I drove up to this building, as you just did, first of all you're like, "Huh?" This is not what you expect. And then I met with Harlan and I met with Anne, Anne Raymond. Harlan and Ann ran the company together. And I met with them and I spent a couple hours, and it was the most interesting interview I'd ever had in my life.

Matt Slepin:

How so?

Michael Levy:

There was really no discussion about business or what I did with my job, or to talk about the business environment. It was a discussion on, who are you as a human? Where did you come from? Who were your grandparents? Tell me about your family. What do you like to do with your life? It was a rambling discussion on who you are and a rambling discussion on my end on who they are, and it was fascinating to me. Those of you who've spent time with him or met him, he's one of the most considerate, thoughtful, intelligent, benevolent people I've ever met, and I was fascinated by that. I said, "Wow, that was completely unexpected." You know?

Matt Slepin:

Mm-hmm.

Michael Levy:

In New York you know a lot of incredibly wealthy, successful real estate people. These are generally brash, harsh, difficult-

Matt Slepin:

They get right to the point.

Michael Levy:

Challenging people.

Matt Slepin:

Yeah.

Michael Levy:

And between the environment physically and the environment of spending time, and I was immediately like, "Wow, this is different." And I won't bore you with it all the next two years, because it was about two years later that I physically started, but the rationale to come was I just wanted to be part of this culture and this place. My heart called at me. In my career being at Wall Street firms, every single year there was a bid away. Every single year someone was knocking on my door for a job. Right?

Matt Slepin:

Mm-hmm.

Michael Levy:

I'd been on dozens of interviews over that period of time because that's a mercenary culture, right?

Matt Slepin:

Right.

Michael Levy:

You know?

Matt Slepin:

Mm-hmm.

Michael Levy:

And I would always evaluate opportunities on, well, what's my responsibility here? What would be my responsibility there? How much money do I make? What's my authority? And this was the first time in my life where it was like none of that. It was just, I want to be part of these people, this culture, this place. From a business perspective I thought, well, look, if they see culturally that I will fit, I don't know exactly where the opportunity will be but this... we talked earlier about, we used the word brand, for lack of a better word.

Matt Slepin:

Yep.

Michael Levy:

This brand, this reach, this access is so much larger than the company.

Matt Slepin:

Right.

Michael Levy:

There's got to be opportunity that I can help them with. And so my friends in New York, the boss I resigned to, they thought I was nuts. They just thought I was nuts.

Matt Slepin:

Where was the nuts? Just give me three lines of nuts.

Michael Levy:

Lifelong New Yorker moving to Dallas.

Matt Slepin:

Yeah, got that one.

Michael Levy:

Giving up a really big opportunity at a major firm. I had a pretty good seat at that point in time. To come down to this smaller private family-owned real estate thing. Those two things were-

Matt Slepin:

Did people worry about tissue rejection? That's a word I use all the time. I think of heart transplants, and it's really hard for that heart to stay in there. So what was the volatility from either your standpoint or theirs? Or the worries that you would be comfortable and happy and it would be long-lasting?

Michael Levy:

I can imagine lots of people felt that for me, but I never felt that.

Matt Slepin:

Yeah. Okay, so let's go backwards to a different subject because what I want to set the tone for, which we've done through the conversation is, what's the meaning of this business? It's another investment manager. There's a lot of allocators out there, so I want to think about the things that make you special. We've talked about them, but we'll get to them. But I want to go backwards into Morgan Stanley because, A, it's a very different culture. I think there's some dog-eat-dog in the world of investment banking, but Morgan Stanley is one of the other half dozen companies in the real estate world that has an enduring alumni club and an enduring meaning. More than almost, I think, any of the other investment banks. And we've had three or four Morgan Stanley alums on the show, Owen being twice.

Michael Levy:

Oh, terrific. He's the best.

Matt Slepin:

But great people. So what was the through line there that made it not just dog-eat-dog but a company with an enduring real estate history at Morgan Stanley?

Michael Levy:

Well, the first is there are two chapters at Morgan Stanley. There's the chapter pre-global financial crisis and a very different chapter post-global financial crisis. The pre-global financial crisis, and when I joined in the late '90s, when I joined, real estate banking, investment banking, real estate lending, so CMBS, and real estate investing was one group. One boss, one P&L. And that business model was incredibly attractive for young people. In addition, at that point in time real estate groups were generally the backwater of investment banks.

Matt Slepin:

Right.

Michael Levy:

We weren't the securities part, and so you kind of could have your own culture inside of a firm. I would also say Morgan Stanley Investment Bank has been, for decades and decades, incredibly well-run with incredibly collaborative people. It is a great... the investment bank, the corporate finance, the investment bankers, it's really been a collegial, collaborative place, and it was during my career and period of time there.

Matt Slepin:

Okay.

Michael Levy:

And I joined them from Salomon Brothers, which was not.

Matt Slepin:

Right. Famously.

Michael Levy:

So I would say, the firm more broadly, it had a strong, collaborative culture. And then the real estate group was particularly collaborative and engaged and partner-like. And it was a wonderful environment to grow in. And we also learned all these skills. Think about it. We could learn working on acquisitions, we could learn working on M&A transactions, we could learn around real estate lending deals.

Matt Slepin:

Right.

Michael Levy:

Now, ultimately that broke up into its own silos, but at that moment in time it fostered-

Matt Slepin:

It was still together.

Michael Levy:

It was still together. And the leaders and the people that were there. Guys like Owen Thomas, guys like Bill Walton. Just great human beings. Great culture. And the business strategically was at the right place at the right time, and it became the most important real estate finance place in the world at that period of time.

Matt Slepin:

Fair deal.

Michael Levy:

And then the global financial crisis came, and it had grown demonstrably. What had happened is, after success in the '90s and early 2000s it became about, okay, let's grow and get AUM and open new products and set up new offices. And I'm going to make numbers up. It grew from $20 billion in 2000 to $95 billion by the time of the global financial crisis. And it deployed a tremendous amount of capital. Now, this is the real estate investing business, not the real estate banking business, not the real estate lending business. Right?

Matt Slepin:

Yep.

Michael Levy:

And then that business hit the wall hard, and it was restructured, and then the firm became a bank. So it was no longer a securities firm. It was prudential regulator was the OCC. And all of that began a huge amount of change.

Matt Slepin:

Yeah.

Michael Levy:

And then there was a new generation and a resurrection. And today there are wonderful people in Morgan Stanley. The real estate banking business has been, through this entire period of time, stable and strong. It's run by a terrific guy named Seth Weintrob. And Seth's been there a long time. John Klopp came into the real estate investing group during the financial crisis, and a guy named Olivier de Poulpiquet. And the two of those guys, and myself for a period of time, worked to help rebuild. And there are wonderful people there today. So it's got a new chapter. It's just my career, I only stayed with the real estate group for a couple years and then I moved into illiquid investment management, and then I ran investment management for the firm. And there were lots of restructurings along the way. Lots of new people.

Matt Slepin:

And one of the challenges was, and I'm joined in this room by my colleague Larry Krema, who had been at EOP at the moment.

Michael Levy:

Oh, yeah. Sure.

Matt Slepin:

And one of the things that happened along the history of Morgan Stanley is they were one of the bidders aggressively on the flip of some of the EOP assets. And I think part of that was one of the two aggressive moments in that story, which you're well aware of.

Michael Levy:

I remember that underwriting. I remember that deal.

Matt Slepin:

I bet.

Michael Levy:

Look, that was one of many. There was a reality. There were funds that were raised in 2006 and 2007, the total of $11 billion of capital. And all of that capital was invested in a very short period of time, and on a global scale. The challenges were global.

Matt Slepin:

Yeah.

Michael Levy:

And a lot of capital was lost for investors.

Matt Slepin:

Okay. So let's now come to what your business is that you inherited. It's grown, but what are the components of the business at Crow Holdings in real estate? And we'll come back a little bit about culture at the end, but now we've talked about development but not all of it. So maybe start there and talk about the investment management.

Michael Levy:

I will. You can go wherever you want in this discussion. Today our firm, in my mind, is defined as three areas. One is real estate, one is energy, and one is private investing. Let's stick with real estate.

Matt Slepin:

Okay.

Michael Levy:

In real estate we are an owner-operator. You're sitting in a very important property. We own other properties that either Trammell or Harlan built or we own, and so we're an owner-operator for a number of assets. We're also a real estate developer. We talked at length about the apartment industrial development company. We did something in the teeth of COVID. We restarted after 25 years, after Trammell company. We restarted an office development company in March of 2020.

Matt Slepin:

I'm pausing and making a face as you say, "March of 2020 to restart office."

Michael Levy:

Correct.

Matt Slepin:

So I want to drill on this real quick.

Michael Levy:

We made a little decision to start the business in 2019 and we found the right individual in 2019, and he moved from Houston to Dallas in January of 2020.

Matt Slepin:

Wow.

Michael Levy:

And we got started in March of 2020.

Matt Slepin:

Okay.

Michael Levy:

And obviously we had a lot on our mind and we were concerned at the period of time.

Matt Slepin:

Yep.

Michael Levy:

And so we have an office development company that has just built the largest mass timber office building in America, in Frisco, Texas, that just a few months ago was announced was leased fully to Toyota Motor Credit. And we are at this moment in time developing office buildings in Dallas. The thesis was, the thesis is that, no matter what, these high-growth cities, Dallas, Austin, Nashville, pick a high-growth city, companies are going to be moving into these areas and they're going to want to occupy the nicest, most collaborative, greenest, live, work, play-friendly environments. And someone has to build these buildings. And so we made the decision that we would do that because, again, at that period of time we had built out the apartment development company to a point of national scale. We had built out the industrial development company to a point of national scale.

What are the other areas that people are going to need to occupy that we believe that we can do a good job? Clearly, there's no doubt I'm sitting there in April of 2020. In May you're like, "Oh my goodness. What did we just do?" I'm not saying this was an easy journey, but I'm sitting here today and I'm entirely confident that this is going to be... will it be as big as, national scale, the business in the next five years as these other businesses are? Of course not.

Matt Slepin:

Right.

Michael Levy:

But will it be a good business? Are people going to need these buildings? Are they going to want these buildings? I was just at PREA, and lenders were talking. This is what they said on stage: "It is easier to get a construction loan on a new office building than getting a loan on an existing office building."

Matt Slepin:

Yes. I had a breakthrough yesterday.

Michael Levy:

That may not be true, but that's what I heard.

Matt Slepin:

Yeah. So when we talked to Ken yesterday, Ken Valach, and then also we were at Lincoln Property Company yesterday with David Binswanger, who's going to be on the show in a couple of months.

Michael Levy:

David's fabulous.

Matt Slepin:

He's awesome.

Michael Levy:

He's the best.

Matt Slepin:

So the conversation in both cases is, here's two companies with no legacy office problems.

Michael Levy:

Yeah. Yeah, yeah.

Matt Slepin:

If you don't have a legacy office problem and you're going to go build class A+, and you're going to do it in a city where demand is, the tenants don't care that we as an industry have a problem with legacy office. They couldn't care less. If you give them an office they like, they'll move in and they'll buy it. And that's where you sit because, with no legacy assets, you're thinking about the stuff that you can think about.

Michael Levy:

Absolutely. So that's what the development business looks like. And the real estate investment business today, through funds... so that team... so the development business is spread out in 20 offices. And the real estate investment management business, virtually all the folks are here in Dallas. So we have about 100 people and we raise funds and joint ventures across a range of strategies. One is a value add. That's, I said earlier, in 1998 Harlan started with the first fund. Well, we're now investing fund 10. And we're investing primarily in industrial sector, the multifamily sector, and a range of what's known as specialty sectors such as manufactured housing or student housing or self storage, convenience and gas.

What we don't do in the investment business, what we haven't done in the investment business for a long time is we don't invest in hotels, we don't invest in office buildings, we don't invest in senior living. We don't invest in high CapEx volatility, high operating-intensive, like senior living, properties. And Bob McLain, who runs that business, who is the best CIO and CEO that I've ever met, is incredibly deliberate. And so we have zero office buildings. We had zero office buildings. We own hundreds of buildings in that business and we own no hotels and no office buildings and no senior living properties.

Matt Slepin:

And you didn't get out of them. You never did.

Michael Levy:

Years ago we did.

Matt Slepin:

Years ago.

Michael Levy:

But Bob made the decision years ago that we would not be doing this. So it wasn't a reaction to COVID, it was a reaction learning over time that the capital volatility of these assets over time, having to get the timing right with respect to these, or the operating-intensive nature of these assets, senior living. There's always something in senior living that upsets the apple cart. We have a credit capability as well in the value add. And then we provide investors the opportunity through funds and other ventures to participate in development with our development company. So those activities that I talked about that Bob and team are doing are not with our development company. They will-

Matt Slepin:

So you're an allocator with third party developers. You're always in bed with somebody else?

Michael Levy:

To the extent. If we don't buy a building and we develop building, yes, we are providing the capital to another apartment developer. We're providing capital to another industrial developer. So there's no commingling of our proprietary activities as a developer with something that we're doing in the marketplace. And that's the real estate investment management business today.

Matt Slepin:

What's AUM right now?

Michael Levy:

It's give or take 20 billion. I'm going to be wrong by a couple of few. It's a great business. It's where I come from. That's the business I have the most familiarity with.

Matt Slepin:

And so how does the culture in the stuff we talked about... we're going to talk more about culture at the end of the conversation, I think, but how does who you are benefit what that business looks like? How you behave. What does the Crow history that we started the conversation with help differentiate what this business is from other $20 billion allocators? Because there's others.

Michael Levy:

The real estate business, if you really think about, what is it? Obviously you need to get strategy right. Imagine if we had been just an office investor. That would've been really bad coming through this cycle, right?

Matt Slepin:

Yep.

Michael Levy:

But we happened to make the right decisions on multifamily, industrial, specialty sectors, much more of an orientation towards the Sun Belt. We come at America from Dallas on out. We're not a New York City-based firm investing in the large markets. And so the nature of our strategy, both property type and markets, has inured to our performance. And so the first is you'd just say, "Track record." But the second point I answered earlier. The real estate business is about relationships. It's about getting the benefit of the doubt. It's about getting the first call. It's about getting the last look. It's about your credibility in the marketplace.

And so fundamentally that credibility that we have, that's been earned by all these people. Not me, them over a long period of time. Gives us that reach and access. Then coupled with just the investment acumen of the team. If you knew Bob McLain and you sat down with him and you underwrote deals, you would understand how deliberate, how capable, how experienced, the pattern recognition, and the number of people that he has taught and trained over the years. It's in the DNA of all of these people. And so they're very skilled at what they do. We pursue simplicity, not complexity.

Matt Slepin:

We pursue simplicity, not complexity. I understand that, but say that again and-

Michael Levy:

Well, in my old world we would pursue complexity. The more complex, the more difficult. We're trying to find that edge through that in complicated structures or complicated... the more complex, the better.

Matt Slepin:

Right.

Michael Levy:

The question is, do you get paid for that? Right?

Matt Slepin:

Mm-hmm.

Michael Levy:

And so from our perspective it's been much more secular trends. If you step back, what are the big secular trends? Living, e-commerce, manufacturing, Sun Belt movement. Okay. Let's work with those secular trends that aren't about complexity. They're simple trends. They're simple to understand. It's growth. And then let's find the best opportunities in those secular trends. And that's been our approach, and it's been successful.

Matt Slepin:

And how much of that simplicity also is capital structure versus we're going to financial engineer this to be a better deal?

Michael Levy:

It's very. I'm going to get the numbers wrong, but in that entire portfolio, which is hundreds of buildings, I think our average... we have no mezzanine loans. It's entirely in senior loans across the entire portfolio. And everything is individually collateralized. We're not collateralizing the portfolios, it's straight up capital structures. And so it cuts across the strategy of how we invest, the way we invest. We know what we like and we know it doesn't fit the box. We don't go out of our way. You won't see style creep in our firm. When we go out and tell investors, "We're going to do the following," they know... the industry's incredibly sophisticated today. Investors decide where they want to allocate. And this is not the early '90s where, "Okay. I'll give you $1 and good luck. Go out there." This is like, "I'm looking for a very specific exposure." And so we're going to deliver upon that very specific exposure within that. We're going to find the best opportunities that we can find within that area that we've told them we're going to focus on..

Matt Slepin:

And talk about what it means. I keep coming back to the stability of the business and longevity of the business and the tradition of the business. And when you talk to an investor, do they... and A, do you co-invest? And that's a question. But also, do they perceive that they're getting in bed with a company that has persistence more than a transactional orientation? Maybe that's a question.

Michael Levy:

I am certain of that. I'm not in the mind of anyone else who's investing with us.

Matt Slepin:

Right.

Michael Levy:

And obviously we do our best to communicate our rich history and our people, but people constantly comment on the durability of our team and the people who've been here for so long.

Matt Slepin:

Right.

Michael Levy:

They know our history. But Matt, we were talking about this earlier. I come from New York. And again, I want to say I worked with some great people, but that is a transactional marketplace, okay?

Matt Slepin:

Yup.

Michael Levy:

Dallas is not. Dallas is a relationship marketplace. People are very focused on getting to know you. It is in our culture. It doesn't mean that everybody's from Dallas here. I'm not from Dallas.

Matt Slepin:

Half the people aren't from Dallas.

Michael Levy:

I understand that, but it attracts people who are drawn to that. And it's also been critical to Harlan. If he was sitting here he would tell you the most important thing is character. It's goodness, it's honorable people. It's doing the right thing always. It's not about the marginal profit ever.

Matt Slepin:

Okay. Stick with that for a minute. Stick with Dallas versus Crow here in this complex. And how do you say, "That's Dallas," not you say, "That's Crow?"

Michael Levy:

I'm not sure I understand your question entirely.

Matt Slepin:

Well, you're saying it's the behavior of all of Dallas, or all of the real estate people in Dallas are more relationship-oriented. And I just wanted to make real... I feel it in this building and talking to you, but I can't generalize that to a city.

Michael Levy:

Oh, I would say that's very true of Dallas. I'm going to give you an exact example.

Matt Slepin:

Yeah.

Michael Levy:

My wife, and both of us were from New York, and I worked in New York City for 25 years. Right?

Matt Slepin:

Right.

Michael Levy:

I started at Prudential, I went to Sally, and then I spent most of my time at Morgan Stanley. And she can count on one hand the number of times she was invited to be part of a business dinner related to my business. Right?

Matt Slepin:

Mm-hmm.

Michael Levy:

In Dallas, when we moved down here, immediately, immediately people want to get together with you and your spouse and get to know each other before they're doing business with you. It is very common here. People want to get to know you. And they're going to get to know you not by sitting across the deal table. They're going to get to know you by spending time with you. And that is critical to the culture down here and very different from the culture that I came from. And to me that's the most direct example of relationships.

Matt Slepin:

Fair deal. Yeah.

Michael Levy:

Very different.

Matt Slepin:

Again, I mentioned David Binswanger. And he'll talk about this too because he's a transplant from LA.

Michael Levy:

He's from LA.

Matt Slepin:

he told not the same example, but the same story, same feeling of being here. And I just don't understand it. I come here for business, so I don't know this.

Michael Levy:

It's lovely. And I would say to you Dallas is a small big city. And because of this dynamic, it's pretty easy, quickly, in your network, to get to understand people. Do you know this person? Do you not know this person? Now, that might be like growing up in a small town. Everybody knows your business, which is the bad thing. But on the good side, it's really easy to develop trust. And if you aren't a trustworthy person, your reputation's going to get harmed pretty quickly and make it difficult for you to do business. And so that's elements of this marketplace.

Matt Slepin:

Let me play that one again, and then I want to come back to your company. If I think of the contrast between that and New York, with New York everyone's dog-eat-dog. Everyone's trying to be number one in the business.

Michael Levy:

That's an overstatement, but yes, I get the point.

Matt Slepin:

Let's go there.

Michael Levy:

Yeah. Okay.

Matt Slepin:

And people have real relationships. I have a lot of friends in New York.

Michael Levy:

So do I.

Matt Slepin:

I love that. So that exists. But here maybe there is a community of companies, and you know you're all going to do business together. And so it is more akin to the overall real estate business that I think generally leans towards that behavior.

Michael Levy:

Absolutely. And it's not just the real estate business.

Matt Slepin:

Yeah.

Michael Levy:

It's civic engagement. It's being involved in your community. It extends to the way people live down here. It's very different.

Matt Slepin:

Okay, cool. I want to ask political questions about this because we think of red states and blue states around us, but we're not going to so we'll... or we'll get to there after I turn off the microphone. But you had four pillars of the business. So there was development, there was investment management, there was energy, and there was private investment. So talk about the other pillars, just so we get the big picture.

Michael Levy:

Yeah. So I walked you through real estate, right?

Matt Slepin:

Yeah.

Michael Levy:

Energy, and that's something that we've started only in the past few years, and that came out of, I mentioned earlier, in 1998 Harlan started to invest in non-real estate things.

Matt Slepin:

Yep.

Michael Levy:

Those were largely passive securities. We decided that we wanted to continue with that theme but develop more operating business capabilities where we could provide opportunity for people. And I started to first think about the word infrastructure. What would be logically adjacent to real estate? What is it that we do and we do well? And what else can we do that's naturally related to that but not real estate? And I started with this big word called infrastructure and then I narrowed that word down into energy. And it was very clear to me years ago, as it is today, America is going to need a tremendous amount of energy in the coming years for all the reasons everybody knows. Not just data centers.

Matt Slepin:

We'll talk about that, too. Okay. Go on.

Michael Levy:

And then if you think about energy, energy's a broad area. You can be involved in power generation, downstream, upstream, midstream, renewables. There's a huge area that's called energy.

Matt Slepin:

Right.

Michael Levy:

But then we thought about, well,, what is the areas that's truest to us? Well, we know, from the real estate development business, how to move the land. And so we started to think, what are areas in energy that would be relevant to that? The other point, we said, "Well, we happen to be in Dallas, Texas. And where's the opportunities here? Where is our reach and access and network? How can we meet and learn people?" And we made the decision to start a community solar development company, which is obviously made available because of the investment tax credit.

Matt Slepin:

Yeah.

Michael Levy:

If you look at that business, you are acquiring leases on land.

Matt Slepin:

What's community solar development-

Michael Levy:

Smaller. Smaller.

Matt Slepin:

Okay.

Michael Levy:

So there's utility scale solar, which is multi-thousand acre pads done largely by the large utility companies. And then there's community solar, which happens on a more local level, which provides electricity more locally.

Matt Slepin:

Okay.

Michael Levy:

And call them 30 acres, for lack of a better word. Five megawatts, typically. And if you look at that business, you're going out to farmers and other people and finding land that's in states. It's a very state-specific business, where the opportunity is. Where is the cost of electricity today? There's a lot of variables. What are the programs? Can you get connected to the grid? There's a lot of considerations but, that being said, you enter into a lease for land. You go through an entitlement process to be able to develop that land as a small solar farm. And most importantly get what's called an interconnection agreement from that solar plant into the grid.

And that's a process, like real estate development, that takes two to four years. And the construction of a solar farm is a lot easier than building an apartment building. And so we looked at all of these elements coupled with the big secular trend that it's pretty clear, no matter what your views are, America's going to invest in solar. And the investment tax credit's been around since President Bush. Biden, in the Inflation Reduction Act, just enhanced the investment tax credit. And we looked at all these variables and we said, "We want to be in that business." And so we have a team of experienced-

Matt Slepin:

Lawrence Pelosi.

Michael Levy:

Lawrence leads that, and he partnered with a wonderful guy named Tim Marvich, who's got a lifetime of experience building these things for large utility companies. And we have a team who's very active. And today we control dozens of sites that will be developed. And each one of these projects is $25 million

Matt Slepin:

Question about the $25 million projects. If the Biden part of the tax credit goes away but the longer term tax credit stays there, are they still viable?

Michael Levy:

It's a viable biz. The investment tax credit that's been around for 20-something years is 30% of the capital structure. Right?

Matt Slepin:

Mm-hmm.

Michael Levy:

Biden offered two main things. One, he made it more portable, more freely transferable. Before that it was more difficult to monetize the investment tax credits. You could, it was just more complicated transaction. In addition, to the extent that you built them in certain locations or you use certain types of labor, you could get adders of an additional 10% or 20% that could take the investment tax credit to 40% or 50%. There was a viable business in the country when it was just 30% prior to the Inflation Reduction Act. And so long as that's maintained, it will be a viable business.

Matt Slepin:

I hope so.

Michael Levy:

Yeah. I said, "If." If the investment tax credit is wiped out in its entirety, it's not a viable business for the United States, period. So that has nothing to do with Crow. I don't know what will happen. We can sit here and we can talk for hours about what we think is going to happen, but we don't know what will happen in the reconciliation bill and where this will stand. And as you can imagine, we're on the front lines of trying to understand that.

Matt Slepin:

Okay.

Michael Levy:

I was going to shift to the other energy business. So we made the decision that, no matter what anyone would like to think, we're going to need... the demand for gas and oil in America and on a global basis is going to stay, be sustained for decades and decades and decades and decades in front of us. And the growth of the demand for oil and gas is only growing. It is not slowing down. It's also a land business. You find land, you get it entitled, you drill. The difference between real estate and oil and gas is, real estate, you do all these things and the value's on the backend. And oil and gas is you do that and the value's on the front end. But other than that, there's a lot of characteristics that are very similar.

We're also in Dallas, Texas. It is our network, all of these people. And so our ability to get access to opportunity, to be able to find talent. And so, long story short, we wound up taking some initial steps, making a few small investments, and today we have an operation in the Permian Basin where we are drilling and producing oil and gas.

Matt Slepin:

Yeah. And how much is gas? I gather most of it's going to be natural gas, not-

Michael Levy:

It depends upon where you're drilling. There's always, in every oil field you're going to get some small amount of gas. It depends, right?

Matt Slepin:

Mm-hmm.

Michael Levy:

But there's also gas fields where you're getting virtually no oil and it's all gas. Today we are generally pursuing oil opportunities with some incident gas to that. We may, in the future... I don't know what the future holds. We may pursue more gas opportunities. Gas prices have increased a bit because there's an expectation that pipelines will be built and Europe will need our gas. And as you know, we're a gas exporter today. But the businesses of oil and gas are very related. And I don't know, over time, where we'll we focus. It might be opportunistic or we might be very strategic about that.

Matt Slepin:

Fair deal. And I think there was a last pillar of the business, and then we're going to wrap up.

Michael Levy:

We're a private investor, like any. We're not a fund manager in the space, but think about a private equity fund who decides they're going to invest in seven different industries. We have an investment portfolio that historically was, we were investing in other people's private equity funds. And today we are investing in companies. Those can be minority interests, those can be influential interests, those can be control interests. The value add that we bring to the table, and we have a number of industries that we're focused on, is the patience of our capital. You know?

Matt Slepin:

Mm-hmm.

Michael Levy:

Virtually, just think about it. If you're a small company and a private equity fund comes to you, and it's typically a closed-end fund, they're going to invest with you. They're going to be running on an IRR clock.

Matt Slepin:

Yep.

Michael Levy:

In three to five years they want out. Every quarter they're going to be, "Where's the IRR? Where's the IRR?" We are a very different, patient, long term capital. And we're very interested in long term business interests that we can help foster and grow over a period of time. And that's the third part of the firm today.

Matt Slepin:

And talk about the difference between short-term investing and patient investing and where you might invest very long term. That's not known in the real estate business. We don't do that, except many of the real estate fortunes have been created by people who built and hold properties for 50 years.

Michael Levy:

Well, let's stick with the real estate business. We have a real estate development business. That's a very short-term oriented business, right?

Matt Slepin:

Mm-hmm.

Michael Levy:

We have a real estate investment management business. That's a medium term-oriented business. We have a real estate ownership business. That's a very long term business.

Matt Slepin:

Right.

Michael Levy:

What distinguishes that? Well, it's not like we're only doing industrial buildings in the short term orientation.

Matt Slepin:

Right.

Michael Levy:

And we're distinguishing it based upon opportunities that we see and what makes sense for the capital that we bring to the table. In this case we're not focused on short term IRR objectives, and so we're looking for companies where we can invest in them and help them grow and flourish over a long period of time. Sometimes we'll invest in a company and it will make sense in a short period of time because there's an opportunity to monetize that investment. But it may happen, over a period of time there are companies that we invest in. We start out as a small investor. Over time we become an influential investor. Maybe at a period of time we control the company and it becomes part of us and we have other operating businesses at the firm.

And that's a path that we're beginning to head down. And I don't know where that will lead to, but this all comes out of, in 1998, a single hedge fund investment, which led to buying stocks, which led to then investing in people's private equity funds, which then led to making some investments in some companies, which is now our primary area of focus in this business, which is investing in companies. And we've now invested in probably 15 companies or so.

Matt Slepin:

Awesome. And think of the through line between all of these. We've talked a little bit about culture, but talk a little bit more about that and the through line of what allows this business platform across all these businesses to be successful and persistent.

Michael Levy:

It is the philosophy. It goes back to Trammell. It continues with the Harlan. It continues with his family. It is the philosophy that the business is a partnership between the people that work there and the family. I have been in the room dozens of time with Harlan and his family where he is related to everybody. You do not own this place. We are lucky to be here. These people can spend their lives anywhere. This is a partnership between the people that work here and the family. And that fundamentally is the key variable that has allowed this company to continue to endure. And that is such a privilege for me, to be able to help pursue that. But without that perspective and without that philosophy, I don't mean to say that we wouldn't exist as a company but we would not have the culture that carries through every element of our business.

Everything I walked you through today, every person who works for us understands this. Whether you're in the energy business, whatever part of the real estate business, the private investing, this is the philosophy of the firm. And it's not just an economic philosophy.

Matt Slepin:

Right.

Michael Levy:

It's looking out for people. It's not leading with policy, it's leading with people. It's working with people in their lives. And it's a very different perspective.

Matt Slepin:

One of the challenges in companies is to make sure that that permeates all the way through the company, with all the folks. That's really hard, to keep that level and have it not be bullshit stuff but be the real connective tissue. Not just words.

Michael Levy:

We try really hard on the front end when we bring people into the firm to get it right. We try really hard to find goodness and character. There's a ton of people who have technical capabilities. For every four people I would've hired at Morgan Stanley, I would only hire one here today. Not because they weren't capable but because of this point that's being raised. Sometimes we get it wrong. Right?

Matt Slepin:

Mm-hmm.

Michael Levy:

sometimes we get it wrong, and that's painful, and we have to make adjustments for that. But the vast majority of the times we get it right. And all I can say to you or anybody else is don't take my words for it. Go and meet our people.

Matt Slepin:

Yeah.

Michael Levy:

All of them. From the 22-year-old kids to the 65-year-old folks on the team, and in between. Go talk to them in any part of our business and you're going to see a consistency across the firm. And that consistency is made possible because of the Crow family. And they give me the opportunity that I don't need to run this place solving for a specific financial objective every quarter or the other things that begin to turn your organization from a place of trust into a mercenary culture.

Matt Slepin:

Cool. Last question on Leading Voices is always your advice to a young person entering the real estate business who probably won't come work here, because you only have so many holes here. So many spaces here for folks. What's your advice?

Michael Levy:

The first piece of advice is the word real estate is such a broad word. There are so many different kinds of roles, so many different kinds of jobs. Do your diligence and understand what you mean by that. Right?

Matt Slepin:

Mm-hmm.

Michael Levy:

There's leasing and investment sales, there's investing, there's development. There's 17 different places in the real estate business.

Matt Slepin:

Functional places.

Michael Levy:

Functional places.

Matt Slepin:

Yeah.

Michael Levy:

Because when you go and interview for that job, you're actually interviewing for a job for somebody in one of those 17 places. And you need to understand that that person wants to hear that what they need and what they do for a living is something you're interested in doing. And so that's something that's lost on people. Often young people, they say, "I want to be in the real estate business." What do you mean? And so that's the first piece of advice. The second piece I think applies to any business. One, finding a job is a job, and it takes a lot of work, and you need to network. Two, you need to be enthusiastic about what you're doing. You need to show a passion for what you're doing. And then you need to work hard. Right?

Matt Slepin:

Mm-hmm.

Michael Levy:

There is no substitute for hard work, but almost none of us are doing anything beyond addition, subtraction, multiplication, and division. It doesn't take a physics degree to be in the real estate business. And so this is not an industry where you need the highest IQ. And I'm not trying to take away from any of us in the business. But it does require, at least on the investing side, to have a financial acumen. To be able to run through analytics. But all of that can be trained. I was an econ major. I went to law school.

Matt Slepin:

Right.

Michael Levy:

I come out and I go into training with all these MBA students using Lotus 1-2-3 at the time. I knew nothing about this. You learn it. You work really hard. But I think all of those things is advice I'd give them. But that first piece of advice is overlooked by a lot of young people when they say, "I want to be in the real estate business."

Matt Slepin:

It's interesting because you talked about those segments being functional areas.

Michael Levy:

Yeah.

Matt Slepin:

People often talk about the segments being property type. And both matter.

Michael Levy:

Both matter, but I wouldn't worry about the property type when I was a young kid. I think that's a fool's errand, to sit around and worry, like, "I'm 22 years old and I got to be in the multi-family business." Really?

Matt Slepin:

Yeah. Totally-

Michael Levy:

It's going to change, right?

Matt Slepin:

Mm-hmm.

Michael Levy:

You can transform your career. I've worked in every property type. You can learn the property types. And I've got it over a period of time. You develop expertise in networking. That's not the key variable, right?

Matt Slepin:

Mm-hmm.

Michael Levy:

The key variable is knowing, like, "I want to be a developer." Do you even know what it means to be a developer?

Matt Slepin:

Yeah.

Michael Levy:

It's a completely different job than being an investor. All right. There are very few parallels between those two jobs.

Matt Slepin:

Totally true. It's to align your personality and your skillset with the functional area that you're going to be great at.

Michael Levy:

Bingo.

Matt Slepin:

Really hard.

Michael Levy:

Bingo.

Matt Slepin:

Cool. Michael, thank you very much. This was a great conversation.

Michael Levy:

Matt, great spending time with you. Thanks so much for the opportunity.

Matt Slepin:

Thank you. I hope that you enjoyed today's episode. Please remember, if you're enjoying Leading Voices, to share an episode with a friend or get them to subscribe. If they're podcast-wary and not sure how to find and subscribe on their phone, go ahead and take their phone in your hand and subscribe for them, and add another few of your favorite podcasts to their list to get them started. They'll thank you for it. You can also find episodes of the show on our website, which you can find at zrgpartners.com/leadingvoices. And if you have comments or discussion about this episode or Leading Voices in general, or if you're seeking help in real estate human capital solutions, recruiting or consulting especially, please contact me at mslepin@zrgpartners.com. Thanks for being a listener to Leading Voices.