Sam Zell:

We got to set the standards for a much bigger industry going forward because Ford Motor Company was public, US Steel was public, big heavy capital intensive businesses were public. Why shouldn't real estate be public? Why shouldn't there be liquidity? And liquidity equals value.

Matt Slepin:

Hi, this is Matt Slepin, and welcome to Leading Voices in Real Estate. Today's episode is an in memorium to Sam Zell, a giant, one of the most giants in the real estate business who passed away on Thursday, May 18th. I sat down with Sam for this conversation in the conference room of his office at 2 North Riverside Plaza in Chicago along with an audience of a dozen ULI young leaders back in September of 2017. We had our conversation shortly after the release of his autobiography, Am I Being Too Subtle? Straight Talk From a Business Rebel.

Sam leaves a tremendous legacy, and you all have access to many, many obituaries that have already swamped your inboxes. I'll give you my headlines. Sam's most important contribution to our business was his embracing the REIT model for several of his businesses and then becoming the REIT world's biggest advocate, tirelessly promoting and helping mainstream REITs into the public capital markets. Second, he created and led several REITs that led their respective sectors, in particular equity, residential and equity office, companies that were both at the forefront of the thesis that scale would help institutionalize a business that had to that point been largely a business of collecting separately structured and incentivized partnerships.

These two points, institutionalization both of capital and operating platform, as our listeners know, is an ongoing theme of this podcast. If you had to put that transformation of the business on one person, that would absolutely be Sam. Huge contribution. And by the way, check out the Leading Voices interview with the current CEO of equity residential, Mark Perel, back in July of last year.

We also cannot miss the Sam persona, which is how he might largely be remembered. Sam was a frequent, outspoken, hilarious, controversial, brilliant speaker whose gravel voice, blue jeans, and F-bombs are legendary. He was a frequent industry speaker as well as popular culture talking head. I heard him most recently, only about three weeks ago at the Berkeley Fisher Center for Real Estate Conference at Pebble Beach. As always, he just spoke his mind and spoke his truth. I had the privilege first of working with Sam on a search years ago for the CEO of one of his portfolio companies, and then doing this interview in his office back in 2016. Many of the things we do today in the real estate business we do because of the trail blazed by Sam Zell. Thank you, Sam.

If you have comments, questions, or would like to get in touch about our work on the human capital side of the real estate business at ZRG Partners, please email me at mslepin@zrgpartners.com. This is definitely one of those episodes to share with a friend. Please enjoy this revisit of our conversation of Sam Zell, who passed away last week.

Today we're talking to Sam Zell, a man who needs no introduction in the real estate business. I think we're just going to dive in on the conversation. I did get to read your book on the airplane last night. I'd started it before. And as I described to these guys, some books you push against the wall to read it, you have to get through it, and it's a little bit of a drag, and this was like a warm knife through butter. It was fun, it was enjoyable. And since I know you a tiny bit and I know all about your world, it was just a total pleasure to read this.

Sam Zell:

Thank you.

Matt Slepin:

And maybe start with a quote from the book. And this starts at the end, but we'll start it at the beginning, that you say, and you've said it frequently, "The definition of an idiot is someone who's reached his goals." And I'm also reminded of this song from Hamilton, He Cannot Be Satisfied. And here we are. You have had a wonderful career. Talk about what that means to you.

Sam Zell:

Well, it's like a lot of people ask me when I'm going to retire, and I answer them by saying, "Retire from what?" I really worked four days in my life for somebody else. If I had to define work, I would limit it to those four days, and the rest of the time I've been chasing ideas and testing my limits. And my comment there is very much a reflection of the fact that I believe you've got to constantly test your limits. And the day you stop testing your limits, the day you say, "I'm satisfied," or, "I've reached my goals," that's a pretty sad day. And it's a pretty limiting definition of who you are. What I've tried to do for myself, for those that I hope to inspire, I try to reinforce for them the importance of constantly readjusting their goals, never getting too close to success. The real thrill is climbing the ladder, not sitting at the top.

Matt Slepin:

You're at the top, so how does that change over your career over your lifetime, and in your 70s, how do those goals change over time?

Sam Zell:

Well, I think that you're probably less tolerant to repetition. I think you tend to generate and create objectives and goals that are perhaps not easily defined. I'm not going to make a million dollars. But I started 20 some odd years ago with the modern REIT era. And I felt that there was an extraordinary opportunity to do something. And so I was very involved in that process and very supportive of the whole industry and everybody else and take great pride in the fact that we've achieved the objective. The definition of achieving the objective is to create sufficient scale so that the real estate industry basically becomes liquid.

And in March of '09, we had an opportunity to test that thesis, which was there's always liquidity, it's just a question of price. And we proved that to be the case. And I think that's wonderful, but that's just another step on the way toward evolving a sophisticated real estate industry.

Matt Slepin:

We'll come back to the modern REITer as we talk on our conversation, but maybe let's start at the beginning of the conversation, can never be satisfied, but then let's talk about your upbringing. And your family was on the last train out of Poland as Hitler invaded.

Sam Zell:

My dad was on the last train at 4:30 in the afternoon on August 31st, 1939 going east. And the Luftwaffe bombed the rail yards with the start of World War II in September 1st.

Matt Slepin:

Unbelievable. Ge came in with guts to uproot his family. He also went east, not west. Was there west to go?

Sam Zell:

Well, there was no place west. West wasn't an option at that stage so the only option was east. As opposed to many others, once he began the process, he was never going to stop short of getting to America. And there were a lot of times when my mother described saying, "All right, enough. We're 1,000 miles from the front," or whatever. And he just was determined that the future was America, and that's where he had to come to.

Matt Slepin:

And America was also, when you got to Japan... Or when he got to Japan, that wasn't going to be a long-term waste station, the first Japanese Jews or something like that.

Sam Zell:

Well, the reality is that there were a lot of Jewish refugees in Tokyo in 1940 and the early parts of '41. And most of them were trying to get visas to the United States. As a result, the US Embassy in Tokyo was a mess. He basically concluded that what he needed to do was go to Cobe, which was not too far away, where there was another embassy where nobody was there.

Matt Slepin:

Keep going. Right?

Sam Zell:

It follows the thesis of my book, which is competition is great for other people, but when you want to get something done, the less competition you have, the better. Then that's how he got out. And most of the rest of the refugees ended up spending the war in Shanghai, which is where the Japanese deported them to.

Matt Slepin:

Let's drill down on it a little bit because there's some folks who came out of the crucible of the Holocaust, either first generation or second generation, had tremendous, unbelievable success. My father-in-law escaped. He hid in an attic during the war, so he was the successful Ann Frank, I guess. But it broke him in some ways. It was really hard. He never recovered from that. But for you, it was a big driver.

Sam Zell:

Well, I was born in this country 90 days after my parents came here. For me, it was growing up in a truly immigrants household, an immigrant that maybe is different than today's immigrant, I don't know. But his attitude was that he was the luckiest guy in the world, that he had gotten this extraordinary opportunity to come to the United States and start over again to benefit from the enormous land of opportunity. He used to refer to it as the streets are paved with gold from his perspective, and he therefore influenced me. There was just an enormous appreciation for the American people, the American system, how lucky we were to be able to recreate our lives in this environment.

Matt Slepin:

And he drove pretty hard. One of your comments was, "He didn't make anything easier or softer." And it's-

Sam Zell:

Let's face the reality that at age 34, he had to make a life and death decision. He had a wife, a two-year-old daughter. He had a very significant number of aunts and uncles and brothers. Happened to be a huge family.

One of the reasons that he was on that last train was he moved my mother and my sister, came back and tried to convince other members of the family to go with him, and nobody was willing to go. Which basically connects to my overall feeling that immigration is what this country is built on. Immigration is also very selective. And I used to kid about my father and say-

Matt Slepin:

That's well said.

Sam Zell:

... he made a life and death decision when he was 34 and never was wrong again, which contributed to our somewhat stormy but challenging relationship.

Matt Slepin:

While you're still at home, you became an entrepreneur because you discovered Playboy Magazine. And maybe you discovered scarcity and discovered how to-

Sam Zell:

At the time, I think I called it Naked Women. Later on, when I was describing the situation with more sophistication, it was much easier to decide that I had recognized an unfulfilled part of the market. I also recognized where there was innate demand. I recognized the fact that artificial government regulation had prohibited the magazine from being sold where I lived but was available below the train tracks. You could say that I converted what was pretty instinctual when it started, I.E., gee, I bought this thing, I liked it, I read it. And then I showed it to a friend of mine and he said, "Wow, how do I get one of those?" And so we began a business.

Matt Slepin:

And then you made some dough.

Sam Zell:

Yeah.

Matt Slepin:

It's interesting, in retrospect and in hindsight, everything had logic and thought to it, but this is instinctual then.

Sam Zell:

Oh, totally.

Matt Slepin:

You're not thinking arbitrage or anything.

Sam Zell:

No, no. The only part that's probably worth mentioning is that I remember sitting there thinking about what the margin should be. It costs 50 cents. I ended up coming up with $3. And I'm not sure why. I tried to find maybe a point of indifference. How much, in absolute terms, could I get and still make it not a major event for someone to participate? I also probably figured that if I got one guy to buy, I'm going to get a lot of guys to buy. And if I got one guy to set the price and he was happy with it, that was a validation that was going to make the business work.

Matt Slepin:

There you go. Well, you didn't check the price then. Okay, good.

Sam Zell:

Continued. Even though the demand was unlimited.

Matt Slepin:

I'll buy that. Then the next step in your entrepreneurial career, your freshman, sophomore at University of Michigan, guy next door to you or the property next door gets sold, someone develops an apartment building, and you sell yourself as his advisor.

Sam Zell:

Close enough.

Matt Slepin:

Yeah, so talk about that.

Sam Zell:

Bottom like was that this friend of mine was living in a house, and the guy who owned the house bought the house next door. And he was going to, as soon as school was over, was going to knock it down and build a 15 unit apartment building. And I said to my friend, I said, "Gee, we're students, we understand what students need and want. Why don't we go pitch them that we'll take over renting the place and managing it and taking care of it? And we'll each get a free apartment."

And so we put a little brochure, and we went and see these guys. And much to probably our own shock, they bought our act. What we thought was going to be an advisory function, basically, they just abdicated everything to us, and they concentrated on getting it built. One was an architect in the financing. And we did all the furniture, we did all the leasing, we wrote the leases, and then we both moved in and ran the building. And we were very successful. And so then we got another building and another building and another building. And so by the time I graduated from law school, we had a pretty significant business. And we had bought a bunch of buildings.

Matt Slepin:

And it started right there. The audacity of this kid saying, "I'll help you."

Sam Zell:

Well, let's assume that the word audacity is yours. I didn't think it was audacious. I didn't think it was out of wine. I thought it was pretty logical. I thought if I were sitting on the other side, I would probably buy my act. But that's really a critical part of the whole story.

Years later, Lurie and I were here in Chicago, and we had president of the bank come for lunch. And he looked at us, and he said, "It's unbelievable what you guys have accomplished. How did you do it? Who told you how to do it?" And Bob and I looked at each other, and I looked at the guy, and I said, "Nobody ever told us we couldn't. Nobody ever said, "Gee, that's crazy."" When we pitched these guys building this building, we didn't think it was audacious, we didn't think it was crazy, we thought that they were getting two guys who were going to spend all of their free time making sure that this thing worked, and by the way, it did.

Matt Slepin:

It's a combination though, you describe... You said this twice, "They bought my act." And it was one of the last questions I was going to ask you about that because there is a Zell brand, there's a Zell persona; the world knows something about you. That's a big part of this. There's a salesmanship to this. And you talk about that through your book as well.

Sam Zell:

Yeah. Well, there's one section I think in the book where I talk about the great disservice that the University of Michigan did to the world, and that is they educated Arthur Miller. And Arthur Miller, of course, wrote Death of a Salesman in which he depicted as salesman as this grubby, womanizing, drunken, horrible person with his shirt hanging out. And he was everything you could imagine that you would be not attracted to. The reality is that there's no such thing as anything without salesmanship.

Matt Slepin:

Totally true.

Sam Zell:

No great idea. Whoever made up that great lie, invent something and the world will come to your feet. Not true. You got to go out and sell it. And when it's all said and done, the truly successful people have been the people who've been able to sell their ideas, and in some cases, unpredictable... Bill Gates, hardly a salesman, but he had a level of specialization and a level of understanding that allowed him to create a new part to our world. And there have been many, many other examples of people that were just great salesman. Fred Smith, who created FedEx, Zuckerberg. When it's all said and done, they're all great salesmen.

Matt Slepin:

But it's a component because the other components are you have an idea that connects with you really well.

Sam Zell:

How it's the condition precedent?

Matt Slepin:

That's a fair deal, that's a fair deal. It all has to exist, though. And you've talked through your book about integrity, relationships, not re-trading. You want to do business with people twice. Those are part and parcel of the holistic part of that.

Sam Zell:

Amen.

Matt Slepin:

Yeah. Won't happen otherwise. You've talk about people through your book, and some really key relationships at... Tell us about Bob Lurie and how you complimented each other and how you had some of the same characteristics and then some complimentary.

Sam Zell:

Yeah. Bob and I both pledged the same fraternity at the University of Michigan at the same time. And that's how we met. We probably couldn't have come from different backgrounds. His father died when he was very young. He worked his way through high school, college. He was from Detroit. I was an immigrant's kid. I started the real estate business. And Bob came to me one night and said, "What you're doing is really interesting. I'd be interested in participating." I said, "Well, if we got a chance to expand, I'll call you." He was our first employee.

Eventually, when we sold the business before coming back to Chicago, I sold the business to him. And the last quote was, "When you get tired of screwing around and you want to come play with the big boys, call me." Now, obviously that was somewhat hubristic in nature. And it was a sense of arrogance that it never dawned on me that I wouldn't be successful, didn't even dawn on me. When he called three years later, he said, "You remember the last thing you said to me?" And I said, "Yes." And he said, "I'm ready." I said, "Fine. Come on." And he came to Chicago and we built our relationship and built the business.

Matt Slepin:

What did he bring that you didn't have?

Sam Zell:

Oh, he was a mechanical engineer. I was the salesman, the guy who operated from the gut, the rainmaker, and Lurie would stay up all night until the two columns balanced. He read every single document. And we have one great story about we were completing some very elaborate transaction and ended up with three or four books of documents. And he was reading the documents, and he made a change in one of the documents, which basically said that in the event of a dispute, the taller person survives. And he did that because he said, "I'm really curious if anybody will ever catch it." And it's been 40 years; nobody's caught it yet.

Matt Slepin:

Yes. And there was another one in the book where the documents came out and the interest rate was an eighth of a point or a quarter point below [inaudible 00:24:01].

Sam Zell:

That's a different story. Yeah.

Matt Slepin:

Tell that story because that tells more about morals and values and how you do business. I found that fascinating.

Sam Zell:

Well, I think the answer is that you got to start with the assumption on our part that we were going to be very successful, as I said a minute ago, didn't dawn on us.

Matt Slepin:

If you have that assumption, then long-term matters and long-term relationship matters.

Sam Zell:

And the second issue is that if you're going to be successful, you're going to be a consumer of capital. If you're going to be a consumer of capital, then it's not one transaction, but it's a flow of transactions when a scenario where eventually your providers of capital make decisions predicated on who you are and the standards you've set. Over many years, whether it was...

I think in the book, I talked about us doing some kind of a convertible debt offering. And we get to the end of the 10-day roadshow, and the guy from Merrill Lynch looks at me and says, in a very formalistic manner, "We're prepared to buy $300 million worth of your debt," da, da, da, da, da, da, "at six and a half percent." I looked at the guy and I said, "Good." I said, "Would you also be willing to buy at six and three quarters?" And he looked at me and he said, "Yeah, but we said six and a half." I said, "I understand that." I said, "I just wanted to know whether the market was there at a quarter or point higher." And he said, "Well, of course." And I said, "Well, then let's do it at six and three quarters." But we kept talking about that for another 10 years because nobody had ever done that before. There was nothing very esoteric about it. I thought about it, I said, "The total cost to me was, I don't know, $1 million and a deal." For $1 million, everybody who bought that transaction that day had a profit the next morning because for me it was a relatively small cost, but for them it was a big deal. And because I knew I was coming back for more, creating that kind of goodwill could only translate into positive things in the future.

Matt Slepin:

In your book, you talk about a couple of other relationships kept coming up, and the one that came up very frequently was Jay Pritzker. And somehow you were introduced to him; he was trying to hire you.

Sam Zell:

Yeah.

Matt Slepin:

You said no, but then you did a whole lot of business. And he was there for you.

Sam Zell:

Yeah.

Matt Slepin:

Talk about what that relationship... How you got in and how it worked, and then what he meant to you.

Sam Zell:

He was obviously famous before I came along. And I had heard of him, but I had never met him. And I was 29. And this friend called me and said, "I was with Jay yesterday, and you really ought to go meet him. He's trying to hire a young lawyer, successful entrepreneur under 30." I said, "If I met all those characteristics, why would I want to work for him or anybody else?" He says, "Come on, go meet him."

Went and met him the next morning. And there was a real instant connectivity. And I ended up spending the whole day there just sitting at his desk. And he fielded phone calls and was doing deals, and I just sat and listened. And each time he was done, we talked about them. And finally at the end of the day, he says, "You're not going to come work for me." I said, "No, I'm not." I said, "Why don't we just do a deal together?" And we did. We did a whole bunch of transactions over probably a 20 year period.

He was probably the smartest guy I ever met. I was very proud of being able to sit at his feet and listen. I learned a great deal. And there's no question that he very, very significantly influenced how I did business and in ways I chose to act accordingly.

Matt Slepin:

The third person I just chose, and this is not the most important person in the book, but there was a guy named Peter... I'm going to say his name, Szollosi.

Sam Zell:

Szollosi.

Matt Slepin:

You have a lot of loyalty and a lot of long-term relationships and a lot of fun in your business.

Sam Zell:

Yes.

Matt Slepin:

Talk about Peter. How did he fit into this?

Sam Zell:

Well, Peter was really crazy, really crazy.

Matt Slepin:

Really crazy.

Sam Zell:

Oh yeah, oh yeah. The issues with Peter were always reigning him in. There's no such thing as limits. I talk about testing my limits. He didn't have any. And he was extraordinarily creative.

Matt Slepin:

What did he do for you? What was his role?

Sam Zell:

Well, I met him originally on a motorcycle trip in Colorado. And he had run his own advertising agency, which he bankrupted because he was for sure not a businessman. And we started talking, and I said, "Well, why don't you come to Chicago? And I run a big business, and we do a lot of fun stuff, and you can be our director of fun."

And so he came to Chicago, and we began doing year-end gifts and parties and all kinds of stuff. And Peter basically designed most of that stuff. And you talked earlier about a brand. I never really thought about branding, but I think Peter did. And I think Peter was someone who worried about our brand all the time; at the same time, stretched it to have people have fun.

I hit under a rock until about 1985 when I started getting involved in public companies. And the Wall Street Journal interviewed me for a front-page article in November of 1985. And so I sat with this lady, and we talked. And we talked about bout culture and ideas and the way we were running our business. And I said, "It's real simple. If it ain't fun, we don't do it." And then the article came out, and it said, "If it ain't fun, we don't do it." And the next day, the office boys at this office came to work wearing T-shirts that said if it ain't fun, we don't do it.

Matt Slepin:

You're famous in the industry, in the world for wearing blue jeans, which were there today, which is good news, so the listeners know that. But your book talked about jumpsuits. I don't know what a jumpsuit is, and I think it talked about wearing a yellow jumpsuit to a meeting.

Sam Zell:

Yeah, it was red.

Matt Slepin:

Red jumpsuit. Yeah, what is a jumpsuit?

Sam Zell:

Well, it's a one piece polyester.

Matt Slepin:

Oh, just like what you think it is for a guy. Yeah.

Sam Zell:

Well, you could call it gruesome. It wasn't gruesome. It's very simple. If you're really good at what you do and you dress funny, then you're eccentric.

Matt Slepin:

You're eccentric. It's cool.

Sam Zell:

If you're not so good at what you do-

Matt Slepin:

Schmuck.

Sam Zell:

... and you dress funny, you're a schmuck. Our whole goal was freedom. And Lurie, by the way, wore the exact same thing to work every single day: work boots, Levis 501, plaid shirt. Every single day. As a matter of fact, about seven or eight years before he died, as he was one to do, he started worrying about the fact that maybe these manufacturers would stop making them, and so he went and bought 10 years supply of each of the three things that he wore every day.

Matt Slepin:

I love it. This morning, I walked by Millennium Park and I saw the Lurie Gardens. Thinking of you, of course, because of today, but really interesting. Upon that is built an empire, and so I want to about two things concurrently. One is the companies that you've built that have lasted, and then two's the modern REIT era. And they go hand in hand. And so talk about how going public became the answer for you and how it became the future for those businesses.

Sam Zell:

Well, I think that I was very fortunate in that, although I was building a major real estate empire back in 1980, Lurie and I sat down and talked about it. And we didn't like the commercial real estate market. And we thought that our success was very much a function of the fact that we were good businessmen. Real estate happened to be the discipline, but our success or failure were ultimately going to be on whether or not we were good businessmen, whether we understood supply and demand and market share and all the other elements of what business is. And so in 1980, we said, "What we really should do is we should diversify." And between 1980 and 1990, we ought to go from 100% real estate to 50/50. And that's what we did. In the process, because we were doing non real estate, we ended up involved in the public markets. And we learned how money was raised, how the public markets worked, what the expectations were, et cetera.

When the end of the '80s came and the real estate world was bereft of capital, the insurance companies were gone, the banks were gone, pension funds weren't there, there was no money. And yet it's a very capital intensive industry. The obvious only last resort was the public markets. And I was fortunate in that I had already had 10 years of public market experience. Whereas most of the other people in the real estate world had to really understand what it meant to be public, I had already been to the movie.

I gave a speech in October of 1993 to narrate in which I laid out the future of REITs and the future of the business. And I started by talking about driving around in 1984 and seeing a bumper sticker in Houston that said, "Please God, give us one more oil boom. We won't screw it up this time." Well, my message to the real estate industry was the same. We had basically trashed the public markets. That's because the private markets were so much more attractive. By the time it got to the public markets, as opposed to the original intent of the REIT Act in 1958, was for ma and pa to have an opportunity to buy corporate real estate, it became the home of secondary real estate, secondary real estate players until 1991 and '92 when there was no secondary anything and the public markets became the only ones.

And they called for accountability, predictability, and transparency. They called for continuity, not one time gains. They called for a level of connectivity with their investor base that most of these guys had never had any experience with, and in fact thought it was an intrusion. But the reality is from day one, my view of it was they're giving me capital. If they're giving me capital, then I made a deal with the devil. And I have to respond to and be sensitive to their needs going forward.

Matt Slepin:

And then this worked for your companies. You started the largest department REIT, manufactured mobile home office, and then also you were doing this on behalf of the industry. It's helping your guys, but you're also helping the industry as a leader.

Sam Zell:

I was head of Nareit. I was the head of the trustees for '94 and '95, but right in the critical part of taking... Because, see, Nareit before the modern REIT era was a very small, very limited group of guys whose sole goal was preserve the 1958 law. Nothing else mattered. I took it and said, "This is the future of the real estate business. This is liquid real estate. We got to do this right. We got to set the standards for a much bigger industry going forward." Because there's no reason that Ford Motor Company was public, US Steel is public, big, heavy capital intensive businesses were public. Why shouldn't real estate be public? Why shouldn't there be liquidity? And liquidity equals value.

Matt Slepin:

Huge deal. In some ways, you led, dragged the industry along with you. You knew what the public markets were like, you knew what the behaviors had to be, so that's-

Sam Zell:

I think drag might be too strong a word. Going back to being a salesman, I understood what had to be done and I did my damnedest to sell everybody on how important it was both verbally and by example.

Matt Slepin:

It's good work. You've talked about liquidity being the driver here, but the other driver is size and scale and efficiency. And I've watched it through my real estate career, the world has transformed into these large, large, large, behemoth organizations that both have size, scale, technology, liquidity all at the same time. And that thesis has proven out incredibly well for EQR. I think the thesis of efficiency was less translated into the office world than it was into the apartment world, but you may have some thoughts about that.

Sam Zell:

Let's begin with the real estate industry was historically a private industry. It was limited in the size by virtue of its private nature and by the fact that generations died, et cetera. We basically, by creating the modern REIT era, began the process of creating companies that span multiple family generations. And EQR is $40 some-odd billion enterprise value. Simon Properties is double that. You got these very large companies without public capital; never could have been built. But by virtue of taking public capital, they are different than the classic real estate models.

Matt Slepin:

You said, "I'm chairman of everything, CEO of nothing," so what's it like to be the chairman of organizations like this that have a 25, 30 year lifespan?

Sam Zell:

So far. So far.

Matt Slepin:

Yeah. That's right, so far.

Sam Zell:

But they really have lifespans of perpetuity-

Matt Slepin:

I think they do.

Sam Zell:

... by virtue of their creation and the way they're run. I say that because I'm not a detailed guy. You asked me before about Lurie, and the beauty of Lurie was he was a detailed guy and I was a big picture guy. Being chairman of these companies is both rewarding and I can make a difference, but I wouldn't be making the difference and I wouldn't be successful unless there was somebody in each of those companies or a number of people who were running those companies on a daily basis. And that's just not who I am.

Matt Slepin:

Talk about how you make a difference now with a company that's... I don't know how old these... 25 years, let's say that number. Mature company that will exist in perpetuity versus a company that you're pulling into creation, big M and A in the past, maybe in the future. But talk about just where you have the most value there.

Sam Zell:

Today, the five companies that are currently traded in the New York Stock Exchange that I'm chairman, within the course of two week period, I will interface with the leadership of all those companies, mostly in person. They'll come talk to me about direction, about interest rates, about leverage, about how I see things. I'll communicate to them where I see things and how I see things changing. And I'm constantly both asking them to take me on and taking them on because it's creating that stress that ultimately produces exceptionalism.

Matt Slepin:

And maybe that stress that creates exceptionalism is always asking hard questions together, not hierarchical conversations, not hierarchical organizations. Play with that a little bit.

Sam Zell:

Yeah. Well, but I talk in the book about the 11th commandment, thou shalt not take one so seriously. You mentioned earlier about the fact that we have a bunch of people working for the equity group who've been here forever. And I tell people, when I hire them, I tell them, "There's one problem. Once you work here, it's going to be very tough working anywhere else." And that's proven to be the case. And it's proven to be the case because this is an open environment. This is an environment where the office door to my... or the door to my office is always open. People come in and challenge me or raise questions and want answers. The environment we create is an environment of the enemy is without. We have a group of people here; they all should be treated as people. This is not a grind them up factory. I want to be proud of everybody who works here, and I want to be proud of the environment I've created.

Matt Slepin:

It's funny, people on the outside know you as someone who speaks a lot, has a lot to say. Your book talks a lot about being a good listener and being a pretty private person. Talk about that a little bit.

Sam Zell:

Well-

Matt Slepin:

Being curious.

Sam Zell:

Yeah, those are what I would call entrepreneurial characteristics. We don't all don't know what an entrepreneur really is. Is entrepreneurship a science? Is it an art? We don't know the answer to that. But we've learned a lot over the years by studying it. And I've financed the study of entrepreneurship in various places.

And you come up with things like entrepreneurs are energetic, entrepreneurs are self-confident, entrepreneurs are curious. Entrepreneurs not only see problems, but see solutions. Those are the characteristics because these people are leading, and they're often leading without a playbook. It's very easy to direct if you're sitting there with the music laid out in front of you. It's much harder if you have to write the music while you're talking. And that's what an entrepreneur does. An entrepreneur writes the music while he's telling everybody how they should play their instrument.

Matt Slepin:

And like you were in college, never having done it before, but being willing to stand in the breach and go for it.

Sam Zell:

Sure.

Matt Slepin:

Talk about risk and trends. Because your book talks a lot about risk taking and how to have the confidence and know what that is and how to mitigate that, and then the other do something going into where the trends are taking the world.

Sam Zell:

Well, I think that the word risk is probably the least defined term, a [inaudible 00:45:10] studied term. And it's a shame that that's the case. I've always believed that risk is an element that one must control. Starts with Bernard Baruch's famous comment in 1929, which was, "Nobody ever went broke taking a profit." If you start with that assumption, then it's pretty easy to assume that if it gets too good, you'll survive.

The problem with risk is all about understanding how much of it you taking, what's the likely of it occurring? How well equipped are you to deal with it? And have you built the base that can handle the risk? As far as I'm concerned, the definition of the best deals I've ever done are those in which my estimate of the risk I was taking proved to be correct. And the closer I was able to predict the risk, the better I did, even though the results of it in some cases were fabulous, some cases were not.

Matt Slepin:

Yeah, you said in the book that some of the deals you were most proud of were deals that did lose money, but you knew what the risks were going-

Sam Zell:

Yeah. But I knew what the risk was. I knew going in that if I did this deal, I was running the risk. And the question was how big was the risk? And in one of the cases in that book, I talk about the fact that we did a very extensive analysis. Turns out, our analysis was right. Circumstances changed that we couldn't have envisioned. But we understood the risk we took, and that makes it a very good deal.

Matt Slepin:

Talk about the Godfather deal.

Sam Zell:

Well, I started equity office primarily by starting a distressed property operation at the end of the '80s. It quickly became obvious, to me anyway, that the future of that business was going to be in the office space business because that's where the biggest excesses occurred. And so whereas we started buying up any real estate, we morphed into creating an office company. And we eventually created that company, took it public in '97. It was one of the biggest IPOs that was ever done. It was phenomenally successful. And we started adding to and building the company. '05, '06, company was probably in the $25 to $35 billion range, was a very large company. And I really thought that we would continue to operate that company forever.

Matt Slepin:

In perpetuity.

Sam Zell:

Sure. I thought it was too big that anybody would ever buy. And when somebody actually approached us in the middle of '07 or '06, I was surprised at the approach, but I also had no trouble dealing with it because every quarter we had analyzed what we thought the company was worth. And so this offer that we had was below what we had thought it was worth so it was easy to say, "Thanks, but no thanks. Next."

Then, somebody said, "Well, what would it take?" And I said, "The only reason we'd ever sell this company is if somebody made us a Godfather offer." And obviously Godfather offers, one, be in excess of what you could refuse. And then along came Blackstone, and they made an offer. And the offer was significantly higher than our own internal estimates, and it became an easy question.

Now, there were a lot of people at that time who thought I'd never take an offer. After all, Sam built this company, it was his baby, et cetera. But that goes right back to what I said before, on the day that you go public, you make a deal with the devil. Up until the day you go public, it's your business and it's yours to do and deal with. The day you take in the public's money, then you have a changed level of responsibility.

Matt Slepin:

Fiduciary responsibility to them.

Sam Zell:

And so when the first offer came in and it was a real offer, there's never any question in my mind that we would sell the company because somebody had offered us a number that was a godfather offer.

Matt Slepin:

Had to do it, had to do it. You end your book with a section of 10 not aphorisms, but it's go for greatness. And you talk about five or 10 things that really fit that are your key comments here. Keep your eyes in mind wide open, the 11th commandment, be the lead dog. Talk about that. And particularly to our group of younger people here, but any parting wisdom from the book and from these comments.

Sam Zell:

Well, I guess I would go back to how you started this interview. You started this interview by asking the question of, "What did you have to accomplish? What did you start out with?" I've always believed in making a difference. I like to laugh and say that I'm a real estate guy, so I'm a long-term investor. But that book is all about somebody creating a business with a very long-term perspective.

I was thinking about what I was going to do in 2010 in 1980. And I obviously was cocky enough to think that I'd be still around in 2010, but I still was very focused on that's the direction I was going and that if I was really going to be successful, I had to take steps along the way that might not produce results for many years to come but set a standard of how business should be run and how companies should be established.

Matt Slepin:

And you've talked about a bunch of those, but let's come back to one of the comments because it's about relationships, it's about how to behave with people. In the book you give an anecdote about someone who said... You're about to do a deal with them, and he said, "Well, congratulations. I look forward to doing this deal, but no one's ever done a second deal with me." Who would say that?

Sam Zell:

I'll never forget that. I'll never-

Matt Slepin:

He was bragging too.

Sam Zell:

Yeah, he was bragging. I sat there, and this guy introduced himself and said, "Hi," and said, "I'm happy you're here, but I want you to know that no one has ever done a second deal with me." And of course, because I was cocky, I said, "Ha, I'll show him." But you know what? I never did another deal with him.

Matt Slepin:

You never did again. Hey, I want to be respectful of your time, but I have one other question. I'm a bicyclist, so on my weekends, I'm on the road, as you are. And as I'm cycling, the motorcycles go by. I've always assumed that the Zells Angels were Harley riders, and I'm told no. Now, the Harley riders go by me on my bike relatively slow, but then come to Ducati riders who go right by me. Scares the hell out of me. What's the difference and what's the pleasure? And just talk a little bit about that part of your life.

Sam Zell:

Well, first of all, I don't see any reason why you should be less scared of a Harley rider than you are of a Ducati rider.

Matt Slepin:

Their mirrors stick out, so you can get clipped by that.

Sam Zell:

As a matter of fact, I would say to you that the odds are that the Ducati rider is a much better rider than the Harley rider, and therefore you are a safer being passed by Ducati than by a Harley. I tell people that Harleys are for parading and Ducatis are for riding.

I ride motorcycles as a sport. I go all over the world looking for twisty, turny roads. The definition of how good a day I had was how little did I ride on a straight road? To the extent that I don't ride on... I just came back from a week in Tuscany; I don't think I rode on a straight road while I was there for a week.

Matt Slepin:

They don't have them.

Sam Zell:

And it's fabulous. But as I'm sure you find out when you ride your bicycle, riding alone, to me anyway, is the definition of freedom. And every year, I'll go spend a week in my helmet. And it's awesomely productive for me. And it's healthy for me. And it redefines freedom.

Matt Slepin:

I totally agree. I have the same experience while my heart racing in a different way than yours is at the same time. Thank you very much.

Sam Zell:

My pleasure. Thank you.

Matt Slepin:

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