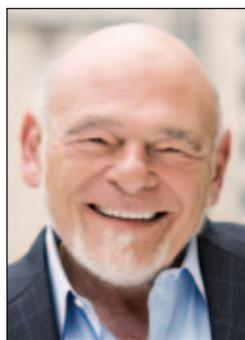


Fostering Entrepreneurship

An Interview with Sam Zell,
Chairman, Equity Group Investments, L.L.C.

EDITORS' NOTE Sam Zell is the Chairman of Equity Group Investments, L.L.C., the private investment firm he founded in 1967. He is also Chairman of Equity International, which he co-founded in 1999. Zell's investments include interests in finance, energy, transportation, communications, health care, and real estate. He is the Chairman of five public companies listed on the New York Stock Exchange.



Sam Zell

Zell is also Chairman of Tribune Company. Previously, he served as Chairman for Equity Office Properties Trust. He serves on the JPMorgan National Advisory Board; the President's Advisory Board at the University of Michigan; and with the combined efforts of the University of Michigan Business School, established the Samuel Zell & Robert H. Lurie Institute for Entrepreneurial Studies. He is a long-standing supporter of the University of Pennsylvania Wharton Real Estate Center, and has endowed The Samuel Zell and Robert Lurie Real Estate Center at Wharton. Zell is a graduate of the University of Michigan and the University of Michigan Law School. He began his career in real estate as an undergraduate.

COMPANY BRIEF Equity Group Investments (www.egzell.com; EGI) is a private investment company. Its founder, Sam Zell, pioneered the public equitization of the commercial real estate industry through the creation and leadership of Equity Residential, Equity LifeStyle Properties, Equity Office Properties Trust, and Capital Trust. EGI's investment portfolio encompasses a broad range of corporate and real estate interests, a small sampling of which includes: Anixter International, Covanta Energy, Rewards Network, Kuwait Energy Company, WRSScompass, Equity International, and Starwood Hotels & Resorts.

There is so much need out there today. Do you target specific areas where you can make the most impact or do you focus on a number of things?

My job is to make the money; my wife's job is to give it away. She spends much of her time on philanthropic endeavors. But there are a few areas in which I have personally devoted a significant amount of my time.

My personal philosophy is that involvement is as important as capital. If you really want to make a difference, you can't do it with passive investments. I was never interested in putting my name on buildings; that seemed too easy to me. I wanted to work at it, to create a program. So I have been, and continue to be, involved in a number of educational endeavors, such as the Wharton Real Estate Center, which I endowed and continue to influence.

In a similar manner, I have been very involved with the University of Michigan. I believe our society has suffered from not focusing on fostering entrepreneurial instincts. Entrepreneurs drive our economy and the growth of this country.

Historically, our business schools had been focused on the numbers, not necessarily what they mean. We had been training our best and our brightest, and at the same time, not exposing them to what I would call the entrepreneurial element.

So in the late '80s, I worked with the University of Michigan business school to develop a nationwide contest for someone to write a syllabus on entrepreneurship. Each year, the winner received \$25,000 and a one-year appointment to the University of Michigan business school to teach the course he/she had created. We did that for six or seven years and it was extremely successful.

That program evolved into the creation of the University of Michigan Entrepreneurial Center, which educates students on the entrepreneurial elements of our society, how to make investments, how to start companies, and how to be part of growing companies. Today, the program is expanding into other schools within the university. For instance, the engineering school has now created its own entrepreneur program.

My goal at the university is to create a vibrant center of ideas that serve as a magnet to young people who have an inclination toward entrepreneurship.

I also founded a program at an interdisciplinary center in Israel, and each year, we take around 20 students and put them through the experience of creating a company, developing the marketing, and doing the research. The school is in its 10th year and students who

graduated from this program are now highly sought after because of their unique set of experiences.

At Northwestern University's Kellogg School of Management, I created a program focused on risk. In my business, I'm constantly balancing risk and return, and working to understand the ramifications of my assumptions. I've always felt that my focus on understanding the downside has given me a better-than-average track record as an investor. I also see that a shared understanding of risk isn't as pervasive as it should be. In any given scenario, there are a lot of materials and all kinds of random queries, but there isn't nearly enough discussion of risk – how to assess it, take advantage of it, and protect oneself against it.

You're known as a contrarian. Did you have those moments where you didn't know if what you were doing would work?

Sure. Most of the people on the Forbes 400 made their fortunes by turning right when everyone else was going left, and I was one of them.

In the late '80s and early '90s, I was buying office buildings at 50 cents on the dollar. I kept looking over my shoulder to see who my competition was, but there was no one there. I couldn't help but question whether I was wrong.

Fear and courage are very closely related. When you have nothing and you've signed for everything, you can afford to lose because you didn't have anything to begin with.

The problem is that as you become more successful, you become a better credit risk and therefore, you're more likely to be good for whatever obligations you take on. So your risk scenario changes. Oftentimes, how you deal with issues is as driven by reputation as by financial situations.

What's the next growth opportunity you're looking at?

Emerging markets. While the U.S. is the most unique, adaptable society in the world, its engines of growth are likely to become more muted in the near future, as is the growth of other developed countries. For strong risk/reward scenarios, I am looking to the emerging markets and their enormous potential, which is driven largely by expanding young populations and the aspiration of a growing middle class – including entrepreneurs. ●