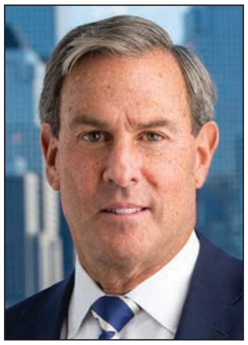
Transforming Mack-Cali

An Interview with Mitchell E. Rudin, Chief Executive Officer, Mack-Cali Realty Corporation


Mitchell E. Rudin

EDITORS' NOTE *Mitchell Rudin has served in his current post since joining the company in June 2015. Prior to this, he served as President and Chief Executive Officer of U.S. Commercial Operations at Brookfield Office Properties, overseeing a portfolio in excess of 50 million square feet in nine markets. Before that, he served as President and Chief Executive Officer of the New York Tri-State Region for CBRE. Rudin has a Juris Doctor from Boston College Law School and is a Phi Beta Kappa graduate of Franklin & Marshall College.*

COMPANY BRIEF *Mack-Cali Realty Corporation (mack-cali.com) is a fully integrated, self-administered, self-managed real estate investment trust (REIT) providing management, leasing, development, and other tenant-related services for its two-platform operations of waterfront and transit-based office and luxury multifamily assets. Mack-Cali owns or has interests in 274 properties, consisting of 146 office and 109 flex properties totaling approximately 25 million square feet and 19 multifamily rental properties containing approximately 5,700 residential units and a pipeline of approximately 11,000 units, all located in the Northeast. Mack-Cali strives to provide its tenants and residents with the most innovative communities that empower them to reimagine the way they work and live.*

When this opportunity presented itself, what excited you about it and made you feel it would be the right fit?

I felt there were three particular areas of opportunity: I have had the good fortune during my career to take part in repositioning neighborhoods and buildings within those neighborhoods. I had just finished being part of the rebirth of Downtown and the success that Brookfield experienced with Brookfield Place, and I had the opportunity to work with a great team. I felt strongly that there was an opportunity to replicate that with Jersey City, where we have a significant concentration on both the office and multifamily sides.

The second part is that, while the suburban portfolio had languished, I believed that as the Millennials started to age and move into their early 30s while facing the challenges and costs of education, many would begin to move to the suburbs with workplace expansion to follow. While I might have advanced this a bit early, this is a fairly universally held view today.

Third is that when I investigated the organization, I felt there were a lot of constructive changes that could be made fairly quickly. I have always liked stepping into challenging situations such as this rather than those that are settled. Interestingly, my brother, Robert who is one of the best brokers in the state and he was able to give me a fair amount of insight into the portfolio and the organization.

What approach did you take to institute the changes you desired?

I came on with a terrifically talented partner, Mike DeMarco, with whom I have complementary skills. We both saw an organization that was ready to transform itself.

It was not an organization where people were empowered, so there was the challenge of breaking down silos and finding those people who had previously not been empowered who could step up and embrace the responsibility, and run with it. We also needed to greatly increase the amount and clarity of our communications.

We have seen a number of folks step up in this environment, which has been proven in the results we're seeing now.

What is your vision for what Mack-Cali will look like a few years down the road?

On the day that we started, we committed to delivering a 100-day plan to advance our mandate. This plan, which we called "20-15," defines a two-platform company – office and multifamily – with a focus on owning assets on the Hudson River waterfront area and in other transit-based locations.

The goal was to take our current 25 million square feet of office space and upgrade it while reducing the total square footage to around 20 million square feet by 2018. We will then look to roughly double the number of apartment units we have in operation.

We were very clear in our goals and our path to them, and we're in the process of implementing it now.

What type of growth do you foresee in areas like Jersey City?

When I started at Brookfield, the rents in Downtown Manhattan were 15 to 20 percent higher than they were in Jersey City; today, Manhattan rents can be almost double those in Jersey City.

When you factor in the tax credit program, the rent differential can be \$40-\$60 per square foot. We have already seen approximately 15 percent rent growth in the time we have been on board. We have had an unprecedented level of activity there as that market has started to change. On the residential side, the kind of people who previously might have only considered certain areas of Manhattan or Brooklyn are finding themselves priced out of those areas and are migrating to Jersey City, which can be 60 percent of the cost.

We are in the process of creating an extraordinary mixed-use environment with over four million square feet of office space and an existing hotel. We'll be developing 100,000 square feet of retail, which will include a marketplace and several high-end restaurants that can take advantage of 1,000 feet of waterfront. Across the street, we'll be opening a residential project with 763 units. This is the first of three buildings and it is so close to work that residents don't even need to ride a bike – they can skateboard to work.

With the emphasis today on trying to create the best environment for employees and the challenge of being able to provide affordable housing for employees in proximate locations, we have found a way to do it better than anybody else. We see the challenges people are facing and are executing on ways to solve them.

Jersey City is one of the top 20 cities in the country in terms of its class-A office space with almost 20 million square feet. It is probably close to the top five in the number of multifamily starts, and it has one of the best young mayors in the country. It is rapidly turning into one of the best mid-sized cities in the nation.

In the suburban marketplace, our focus is on areas like Parsippany, Metropark, and White Plains, which are transit-based and areas where people desire to live.

We are formulating plans in Parsippany, for instance, to create the equivalent of a town center within an office park we own there. It's about taking live/work/play to a different level. We will be looking to build multifamily units, put in retail, and expand hospitality. We have the tremendous advantage of having a multifamily division as part of the company, so we don't have to go outside for expertise.

Is there enough growth within those markets or will you look to expand to other markets?

There are two sides to the business: On the multifamily side, we're in seven states, but our heaviest concentration is in New Jersey. On the office side, we're in New Jersey and also in Westchester County.

We have announced we're exiting New York, Washington, D.C., and Maryland. We are going to be focusing heavily on the New Jersey waterfront and select suburban markets where we're confident about their future and their ability to support premium rents. We actually purchased two buildings before we even sold anything. One acquisition was in Metropark, which sits right behind our current headquarters. We're going to create a mini-complex there, which will be upgraded to include expanded food options, fitness, and connectivity. The second acquisition is in the Mack-Cali Business Campus in Parsippany. We will have future acquisitions to announce along with the dispositions we previously discussed.

As you're going through this transformation, how hard is it to find the balance between long-term and short-term?

I've been in a public environment for 15 years and, while we have a responsibility to our shareholders to deliver, I have never been in a situation where the short term trumped the long term. We have announced a long-term plan, and to meet that plan, we have to at least meet, if not exceed, our quarterly goals. For the quarters under our regime, we've been able to exceed guidance each time.

That has never been an issue and isn't one now. We're driving toward our long-term strategic plan.

How have you approached growing the talent within the organization?

Our business is very much about our people and our ability to leverage the talent within our organization, and we have terrific leadership here. On the multifamily side, it comes from an existing organization that was acquired three years ago that has an extraordinary management team. When I was doing my due diligence on Mack-Cali, it became clear that, if they're not the best multifamily company in the Northeast, at worst they are second. The people are of top quality, both professionally and personally. On the commercial side, the management team has stepped up, bought into the vision, and has been executing it. We have been pleased to promote people on both sides of the business.

This summer we are also going to consolidate our offices with a headquarters in Jersey City and an operations office in Parsippany.

Everyone talks about how business is changing with technology. At the end of the day, is it still all about relationships?

It's not all about that, but the advantage that Mike and I have in being in the industry for a while is that we have established long-term credibility. All other things being equal, people want to do business with people they have comfort in professionally and personally. When we say we're going to deliver something, they know we're actually going to execute in an effective and timely manner.

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One of the advantages we did step into is that Mack-Cali is the largest office company in New Jersey and the people in the industry in the state take a lot of pride in it. In Manhattan, ask the question about who is the biggest or best company and there will be 10 different answers. Ask people in New Jersey who is the best and biggest in the state and they'll say it's Mack-Cali.

We have residual brand equity, so now it's just about uncorking it. We have spent a lot of time with our various constituencies – our investors, analysts, tenants, brokers, lenders – conveying our message and being available all the time. We have also spent a lot of time in Manhattan where the relationships, particularly as they relate to the Jersey waterfront, are critical. Those long-established connections have been very helpful.

At different points in my career, I had responsibilities for the suburbs in the greater New York area, so it's a rare room I walk into where there isn't somebody who I know or have dealt with, regardless of the firm.

Will you ever have the desire to slow down?

Not in any time horizon I can see – after all, I am still playing full-court basketball. When I talk to young people who are considering careers, they will, of course, talk to me about the real estate industry and contrast it with finance and other industries. I always tell them one thing they should note about this industry: there are more octogenarians, people in their 70s, who are working for the love of it instead of for the money. They work like they're in their 20s because there is a wonderful passion and creativity around this industry, with a great amount of camaraderie.

There is a camaraderie and commitment to excellence in the industry, and a great dedication to philanthropy as well.

When I moved from CBRE to Brookfield, I didn't have to work particularly hard to establish relationships with the people in the other brokerage companies because in each one of those companies, while we might have competed fiercely during the day, I always had really close friends who I socialized with, and I wasn't alone in that.

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How does that philanthropy focus manifest itself?

Philanthropy is central to the real estate industry in the New York region. It might be, in part, for business purposes or social reasons, but ultimately, we're doing tremendous good for many organizations.

There are those of us who raise significant sums of money for great organizations, sit on boards, and cultivate great relationships. It's not by accident that almost every one of the major philanthropies in the New York area has a real estate vertical, and if they don't, they want to know how to start one.

Money is being raised here for causes across the country and New York is absolutely unique in this. There is no other city in the world that has the commitment to philanthropy that New York does. It's just part of doing business here, and we feel good about it. It's very central to what I do.

I also have a long-term commitment to professional development and diversity, so as things mature, I will look for similar opportunities here. I have worked closely with women's networks and I co-founded AANG, the African American Affinity Group, at CBRE. ●

