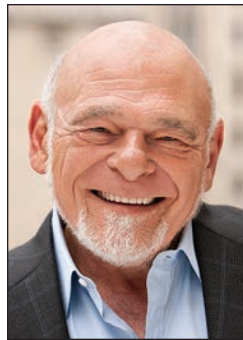


Leading by Example

An Interview with Sam Zell, Founder and Chairman, Equity Group Investments

EDITORS' NOTE Sam Zell is a global, opportunistic, and often contrarian, investor. He specializes in identifying market anomalies and emerging trends and has a long track record in turning around troubled companies and assets, leading industry consolidations, and bringing companies to the public markets. He has a diverse investment portfolio, which includes logistics, healthcare, manufacturing, agribusiness, and energy, but he is often best known for his



Sam Zell

pioneering role and stewardship in creating the modern commercial real estate industry. Zell is the founder and chairman of Equity Group Investments (EGI), a private investment firm he started more than 50 years ago. He chairs three companies listed on the NYSE and also chairs Equity International, a private equity firm he founded to focus on real estate-related opportunities outside of the U.S. Zell is recognized for his advocacy of corporate governance, particularly in real estate and in the emerging markets. He is an active philanthropist with a focus on entrepreneurial education. Zell holds a JD and a BA from the University of Michigan. He began his career in real estate while still an undergraduate. Zell's book on how he became a self-made billionaire is called, Am I Being Too Subtle?

COMPANY BRIEF Equity Group Investments (egzell.com) 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, and Equity Office Properties Trust. EGI's investment portfolio encompasses a broad range of corporate and real estate interests that includes Ardent Health Services, Cross Border Xpress, Able Freight Services, and East Coast Warehouse & Distribution Corporation.

Did you always know you had a passion for real estate investing and how did you get started in the business?

I did not have any capital, but I knew that I wanted to raise capital and invest capital. Therefore, I was naturally attached to anything that was leverageable. I ended up getting involved in real estate because it was leverageable and a business where I could get extra bang for my buck.

You are an entrepreneur, investor, operator, and owner. What has made you effective in each of these areas?

My first real estate endeavor was literally operating a 15-unit apartment building, which meant all the maintenance and all the economics, so I got exposed to what you must do to make these types of places function. As time went on and my operating responsibilities reduced, having that skill set has remained a positive thing. My ability to step in and get involved in issues that need to be addressed in the business has been impacted by having this experience.

You have gone through many cycles in real estate. Where so you see the real estate landscape today?

I think that the real estate market today is relatively benign. We have just come through the pandemic, and I think there is a big question as to how much demand for office space there is, and there is also a recognition that we have come through a period of extraordinary liquidity and availability of capital. This means that many of the things that cause barriers were not there with money being very cheap and very available. The result is that a lot of real estate got built that may not have the long-term demand. The hottest real estate play of the year was warehouse and distribution, and yet Amazon announced that they are going to slow the pace and reduce

exposure. I think that this is an indication that while there is demand, there is a question as to whether there will be enough demand to meet the large amount of supply.

Similarly, retail has its question marks. It would not be hard to describe retail as a falling knife. If you drive up Madison Avenue in New York or Michigan Avenue in Chicago, you will see runways of empty space where there used to be stores, while online retail is growing at 12 to 14 percent.

The rental market and single-family home market has been very strong.

What are your views on the future of work and the importance of companies bringing people back to the office?

While there are some areas where working remote may be possible, for any risk-taking shop like mine you must be in the office. I was in the office every day from the beginning of the pandemic – for three months I was the only one in the office – but I can't tell you how important it is to set the tone for the organization. I do not think you can benefit from collaborating with others and learning from your peers without being in the office. I firmly believe that if we do not get back together and realize the social nature of our community, we will be a much less productive community.

What are your views on inflation, and do you feel that the economy is headed for a recession?

As I mentioned earlier, we have been in a period of extraordinary liquidity. The reality is

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that we have inflation because we spent \$7 trillion in three years and flooded the market with capital, which raised the specter for significant inflation. We have been at eight or nine percent inflation for a few months which is devastating and cannot be allowed to continue. I am very much supportive of the 150 basis points raise recently, but while 150 basis points sounds like a lot, you need to realize that the rate was zero to begin with.

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You have a very diversified portfolio with healthcare, logistics and transportation, agribusiness, energy, and real estate. How important is that diversification when it comes to managing risk and what do you look for when evaluating an investment opportunity?

About 40 years ago, my business partner, Bob Lurie, and I sat down when at the time we were 100 percent real estate and we did not like the conditions of the market. We decided at that time that we would not put more money in real estate and needed to decide where to focus our efforts. We concluded that the reason we had been successful is that we were basically good businessmen – we understood supply and demand, we understood cost of capital, etc. Given that scenario, the same principles that apply to real estate should apply to other businesses. This led to us finding opportunities in many places and we are completely industry agnostic. We look at the specific terms of a deal and look at the opportunities for future growth, the competitive landscape, the management team, etc.

We rarely would make an investment in a company on the assumption that we would find a different CEO. We look for opportunities where the person leading the company is capable of delivering and we bring the expertise, experience, and know-how to support their efforts.

Where did your passion for philanthropy develop?

I was always interested in philanthropy. In addition, my appetite for amassing wealth is far more than my ability to spend it. The only thing that being very wealthy gives you is the ability to decide where it gets spent. My wife and I have an attitude that where we give needs to make a difference. I remember some 25 years ago I was preparing my tax return and I had given \$1,000 to 250 different institutions and I realized that I had accomplished absolutely nothing. I changed my thinking about philanthropy and decided to only focus on six to eight causes and to make a significant investment, including my personal involvement and time, as is the case with the areas my wife is involved in supporting.

What do you feel are the keys to effective leadership?

Leadership starts with leading by example. As I mentioned earlier, when the pandemic came, I was the only one in the office. The fact that I was here set a mark in the ground and an example of what I define as leadership. Being a leader also involves an emotional quotient. Effective leaders today possess a genuine caring and understanding of the people who work for them. You need to be sensitive to other people. In our company, the reason people have not succeeded was not because of their intellectual ability, it was because they lacked the EQ to understand and relate to the employees in our efforts to reach our objectives.

Do you feel that leadership can be taught?

I think the question is if you are born to be a good observer, since if you are then your ability to observe other people that are setting the example means that your ability to do that is equally capable. There are way too many examples of people who just don't see what is really happening which leads to them ultimately getting surprised.

Is entrepreneurship a science or an art?

I believe that a lot of entrepreneurial characteristics are in fact learned. Whether the people at the very top who make the extremely difficult decisions have an entrepreneurial

native, I am not sure, but I do think that everyone has the ability to add risk to their quotient.

What do you attribute to your ability to manage risk?

It is about being scared to death all the time. I have always had great fear in almost everything I have done.

What advice do you give to young people beginning their careers during this uncertain time?

I do a lot of public speaking and usually the last question I get is from a newly minted MBA sitting in the back of the room who says, “when you started, there were great opportunities, and today I do not see any of those opportunities. What do you think, Sam?” I tell them that although the opportunities are always changing, the reality is that if you think correctly, the ability to take advantage of them will never change. When I was growing up, real estate may have made the most sense. If I was entering the business world today, I may be looking at high tech. There is an unending potential for solutions, and it is about recognizing the opportunities.

With all the success that you have experienced in your career, did you enjoy the process and take moments to celebrate the wins?

I would challenge the word “wins.” I have been a businessman all my life. I have been an investor all my life. I have had to measure investment potential against investment risk. That is what I do and that is what I continue to enjoy doing to this day. I rarely look backward. I have never looked at it as wins and losses since some of the deals I have done have been perfect and still resulted in a loss since my assessment of what the downside was happened.

It can be lonely at the top. How important has it been for you to build relationships throughout your career and to have that personal connection?

The importance of those relationships cannot be overstated, because ultimately the people I have a relationship with I am dependent upon. If I had to give you one word that has allowed these relationships to happen, it is accessibility. I have always been 100 percent accessible which is a reason why there has been such high retention for many years at the company. Our people do not think they work for EGI – they work for Sam Zell, and if they have an issue or a problem, they come to my office. It can still be a lonely corner office at times since there are certain problems that only you can fix, but in the end, it is accessibility which leads to trust. If the people who work for you trust you, it provides a huge leg up on being successful.

Do you ever think about slowing down?

I do not know what the term “slowing down” means. There are people who ask me when I am going to retire, and my answer is, “retire from what?” I have not had a job since I graduated from law school. Everything I have done since then has been on my own initiative. ●