

# Profiles in Investing: Sam Zell and Zell's Angels

**BL: How did you get started in the real estate business?**

SZ: I was a junior at the University of Michigan and a friend of mine lived in a small town house. The guy who owned the house came to my friend one day and said "I bought the house next door. I'm going to rip the house down and build a fifteen unit apartment building". I said to my friend why don't we convince him to let us rent the apartments – we're students we know what they want. We put together a little brochure and presented it to him. He bought it. That was my first exposure to the real estate business. It turned out we were really good. The result was that other owners came to us and gave us more buildings. Then I started buying buildings. By the time I graduated law school we managed about 4000 apartments and owned about 100-200 apartments.

**BL: How did you pick up the name "Gravedancer"?**

SZ: The nickname came from an article I wrote for New York University Review. They had come to me in '74 or '75 and said we are aware of some of your activities and would love for you to write an article on it. As I was trying to come up with a theme for the article I said, "I am really a gravedancer". In the mid-70's I did \$3 billion worth of distressed acquisitions and was able to do them with very little cash. At the time the standard of the banks was that if you could make the case that in five years the property would recover they didn't have to take a write-off. The banks focus was on band-aid deals so they didn't have to take a write-off – and I was perfect for that.

**BL: Where did you develop your philosophy of becoming a distressed investor?**

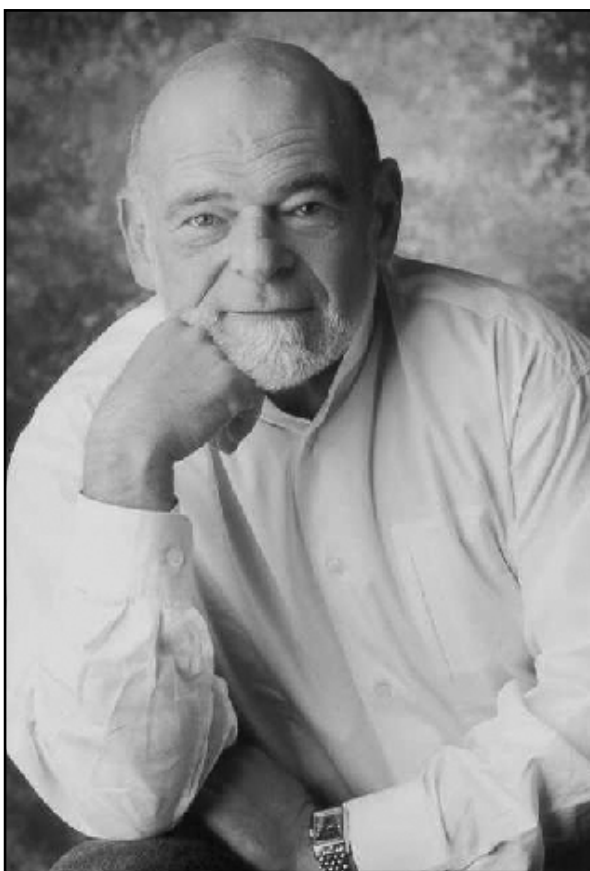
SZ: I've always thought simply. I look at situations and act when I think the problems are temporary. I believed if you could buy assets with sufficient ability to carry them then over time you could not lose. In the early 70's we were buying apartment units at \$10k and they cost \$20k to build. My thesis was that if it was a good location and reasonably built then I was competing in the market at \$10k and new people would have to compete at \$20k or \$25k. I didn't believe there was any way you could lose assuming you had the ability to carry it.

**BL: Have you ever gotten away from that philosophy, perhaps during the technology boom?**

SZ: I think the technology boom was extraordinary possible because the people involved had never had any experience with reality. It was a whole bunch of kids like you and a whole bunch of analysts on the street who were a couple of years older than you. They bought into the new paradigm, they bought into eyeballs. Check out [www.zellennium.com](http://www.zellennium.com) - I started sending out year-end gifts to people in 1976. Most people send out calendar, nuts and other stuff. I wanted to do something different So every year I share with the people I work with where my head is at. This is what I sent out on Dec. 31<sup>st</sup> 1999. There you'll see my attitude towards the internet. And PS I was happy to acknowledge the fact that might not get it, but I wasn't going to change my basic philosophy just because everyone else was going crazy

**BL: Do you think there are certain times in the real estate cycle when you are not active because prices are too high?**

SZ: Absolutely. Right now Equity Residential and Equity Office are probably going to sell ten times as much stuff as they are going to buy. Five years ago they bought ten times what they sold. In 1981, my partner and I didn't like the real estate business and we didn't like it for three reasons. First, the whole key to the real estate business has been inefficient markets and the markets had become efficient. Second, you always got tax benefits for the lack of liquidity in real estate but by 1981 assets were valued at X and sellers were



## Vital Statistics

- Chairman Equity Group Investments, L.L.C.
- Chairman Equity Residential Properties Trust (EQR); Equity Office Properties Trust (EOP); Capital Trust (CT); Danielson Holding Corporation (DHC); Anixter International (AXE); Angelo and Maxie's (AGMX); Manufactured Home Communities, Inc. (MHC); and iDine Rewards Network Inc. (IRN)
- Trustee of the Field Museum in Chicago
- Serves on the President's Advisory Board at the University of Michigan
- Visitor's Committee at the University of Michigan Law School
- Member of the Visiting Committee of the University of Chicago's School of Public Policy

adding on Y for the tax benefits. And third, all great wealth in real estate has been made off of fixed rate debt and beginning in 1981 the providers of debt went from 30 year loans to five year bullets. All of a sudden you didn't have the arbitrage of long-term fixed rate non-recourse debt against changing operations on a day-to-day basis. That is when we started operating outside of real estate. And throughout the eighties we were really a minor player in real estate. We were a major owner but a minor player – because we didn't get it. And when we didn't get it we didn't do it.

**BL: What did you branch out into in the eighties?**

SZ: The history of Sam has been a history of change. I look around and see what has changed. In 1981 the government changed the rules on net operating loss carry forwards or NOLs. Prior to that, a NOL could be applied up to three years back and three years forward. In 1981 Congress changed the rules so that NOLs could be applied for up to fifteen years. I looked at that and said "It went from three years to fifteen years that dramatically changes there value". Yet when I looked at companies on the NYSE that had huge NOLs, they had not changed in value at all. So I went out and bought NOLs. I accumulated well over a billion dollars worth of NOLs and then went about creating businesses to absorb the NOLs. We consolidated the rail car business in the US in eighties, we built from scratch a billion dollar agriculture/chemical business

and we did other stuff as well.

**BL: Do you think REIT's are accurately priced?**

SZ: I think REIT's are underpriced. I think the analytical community has gotten attracted to the concept of NAV or Net Asset Value. But Net Asset Value is always a look backwards and as you see right now the NAVs are X and the properties are getting sold at 2X. Something's wrong. The GM building sold for \$700 a sq. ft. I own 6 million sq ft in New York and its valued at \$200 a sq. ft. Over time we will see a significant upward adjustment to the assets in the REIT world.

**BL: Do you think the sale price of the GM building was fair?**

SZ: Fair? If I owned it I would have sold it at a \$1.4 billion in a minute.

**BL: Would you have bought it at \$1.4 billion?**

SZ: No. I bid on it, but my bid was about \$300 million light. I thought our bid was aggressive. At the moment there is a staggering overall worldwide shortage of passive income emanating from brick and mortars income and the prices reflect that.

**BL: So these higher prices are not a reflection of a real estate bubble?**

SZ: Not at all. US real estate is the cheapest in the world and always has been. Should an office building in London be worth twice as much as an office building in New York City? I think the US is moving more towards that kind of pricing.

**BL: Is this going to limit your desire to acquire properties going forward?**

SZ: It might, but when you have \$25 billion to start out with it's not such a serious problem. And as circumstances change so will we.

**BL: Do you have any ideas where you might be active in the coming years?**

SZ: When it is all said and done I am a professional opportunist. What has always intrigued and attracted me are scenarios where I believe there is significant inherent value beyond the price I am paying.

**BL: Moving off business – you ride a Harley?**

SZ: No. I ride motorcycles, but I've never ridden a Harley. Harley's are for parading. I ride a motorcycle as a sport. I'm not the guy who goes out on Sunday and parades down the expressway. We ride all over the world and look for the twisty, windy roads.

**BL: So you're part of a bike gang?**

SZ: Yeah, it's called Zell's Angels. Our first trip was 1985 and we do one or two trips a year.

**BL: What's the best piece of business advice you've ever gotten?**

SZ: Don't sign personally.

**BL: What advice do you have for young people or students?**

SZ: Go to law school. I went to law school and I practiced law for a week. I never intended to practice. But every day since that time my legal experience has been relevant because it taught me how to think. It was just extraordinary training for being a business man in today's world.

**BL: Interesting advice considering this will be published in a business school paper?**

SZ: My attitude towards business school is that there are six courses which are critical and most of those are accounting. And I think everything is worthless. You can get most of the underlying basics without going to business school.

**BL: Thank you very much Mr. Zell**