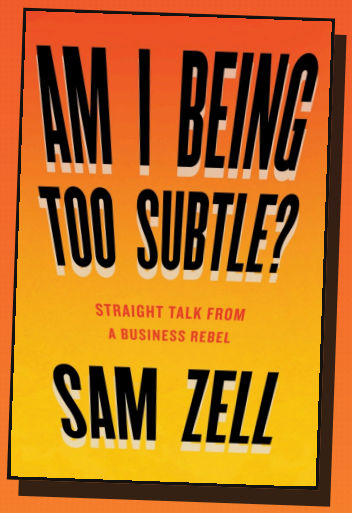
# AM I BEING TOO SUBTLE?

STRAIGHT TALK *FROM* A BUSINESS *REBEL*

## SAM ZELL




Son of refugees who fled Poland in 1939, he bought distressed property after the 1974 crash, built the Equity companies and sold Equity Office to Blackstone for $39 billion. ***"I didn't invent the modern REIT industry, but I helped make it dance."***

### HIS FUNDAMENTALS, ON EVERY DEAL

**SUPPLY & DEMAND**
"Opportunity is very often embedded in the imbalance between supply and demand."

**LIQUIDITY = VALUE**
Born in the early-1990s cash crunch: without scale, no liquidity, no options.

**GOOD GOVERNANCE**
Directors as "cheap consultants to the business, not potted plants."

**RELIABLE PARTNERS**
Interests aligned, skin in the game: "it ain't their money."

## START WITH THE DOWNSIDE

***"Risk is the ultimate differentiator."*** His rules:

> ***"If you've got a big downside and a small upside, run the other way. If you've got a big upside and a small downside, do the deal."*** Get paid for the risk, and ***"never risk what you cannot afford to lose."***

**The four questions:** What's the outcome if everything goes wrong? What actions would we take? Can I bear the cost? Can I survive it?

**Keep it simple.** A four-step plan has three extra ways to fail; mentor Jay Pritzker taught him every deal hinges on one step. ***"Some of the best deals, of course, are the ones you don't do."***

## THE GRAVE DANCER

**1973:** with occupancies still above 90%, he saw a glut coming and stopped buying: ***"I just stepped aside while the music was still playing."***

**After the 1974 crash** he took over about $4 billion of troubled property from lenders with ***"$1 down and a hope certificate,"*** buying below replacement cost.

His 1976 article gave him the nickname, though ***"I wasn't so much dancing on graves as I was raising the dead."*** Its warning still stands: ***"There is often a thin line between the dancer and the danced upon."***

**Read the cycle:** in 1988 he warned real estate was breaking for good, and coined the industry's survival mantra, *"Stay Alive 'til '95."*

### CONTRARIAN BETS · IN HIS NUMBERS

**1,237%**
**Jacor radio**
17 stations to 243 in three years; sold for $4.4B.

**5:1**
**"Trailer" parks**
IPO 5x oversubscribed. T-shirt: "it's not called a trailer!"

**$39B**
**Equity Office**
A *"Godfather offer"*: Blackstone at $55.50 cash.

**4.2x**
**BR Malls, Brazil**
Emerging markets when they were "untouchable."

**~15x**
**Mucinex**
$26M in 1999; $380M when sold in 2007.

**Ch. 11**
**Tribune**
$8.2B buyout in 2007; bankrupt within two years.

## RUN IT LIKE ZELL

- **A meritocracy** with a moral compass.
- **Open kimono:** *"No secrets, no whispers, no closed doors."*
- **No surprises:** *"We don't kill the messenger around here."*
- ***"I don't seek deference; I seek ideas."***
- **Hire for drive and judgment** over IQ. First question: *"How hungry are you?"*

## USE IT MONDAY

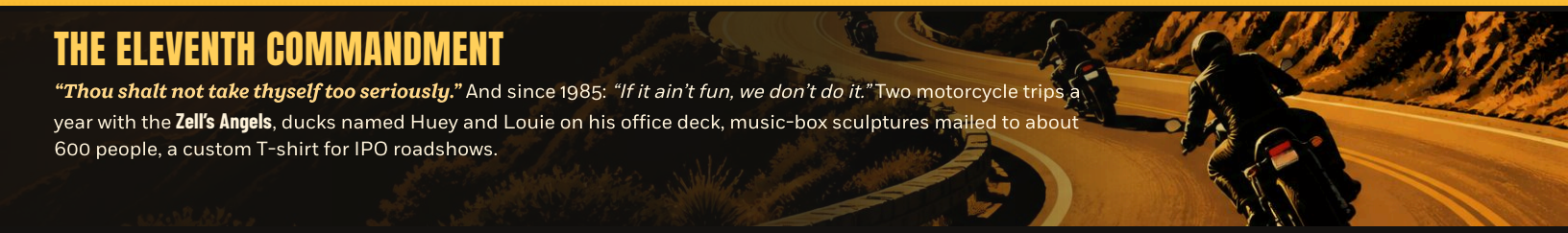
- **Ask the four downside questions** before your next big call.
- **Find the one step** it hinges on; fit it on one page.
- **Re-buy test:** *"every day you choose to hold an asset, you are also choosing to buy it."*
- **Leave a little on the table** so partners come back.
- **Give your people a piece** of the deals, not just salary.

## WHAT HE ADMITS

- **Tribune:** ad declines ran at *"multiples of the downside case." "Maybe I was too rough. But I wasn't wrong about where the business needed to go."*
- **9/11 sank** his Hawaii cruise line: about $100M lost.
- **Two building-from-scratch debacles** cured him of development.
- **Family paid a price:** *"my career often won."*

## THE ELEVENTH COMMANDMENT

***"Thou shalt not take thyself too seriously."*** And since 1985: *"If it ain't fun, we don't do it."* Two motorcycle trips a year with the **Zell's Angels**, ducks named Huey and Louie on his office deck, music-box sculptures mailed to about 600 people, a custom T-shirt for IPO roadshows.



## "IF EVERYONE IS GOING LEFT, LOOK RIGHT."

SAM ZELL · AM I BEING TOO SUBTLE?
PORTFOLIO / PENGUIN, 2017