

Industry Leader Profile

Chairman and Founder,
Hines Organization

Gerald D. Hines

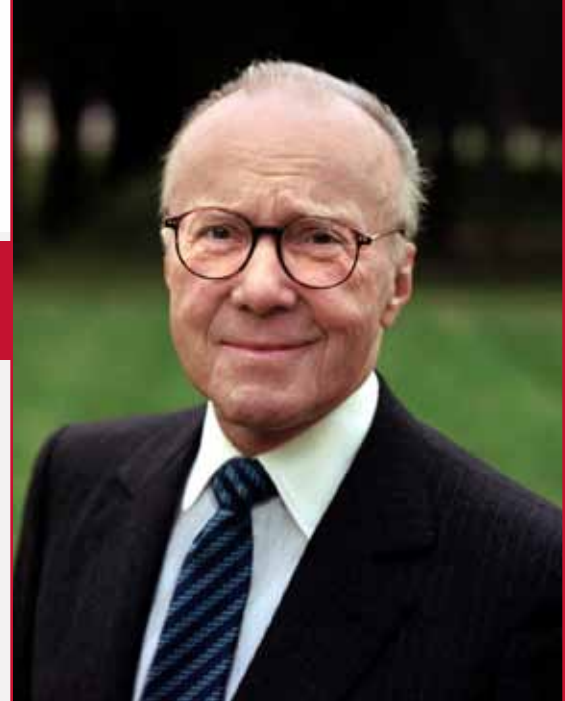
Gerald D. Hines founded his namesake firm in Houston in 1957. Since then, the company has steadily grown into a global leader in real estate investment, development and management, and is one of the largest real estate organizations in the world, with offices in 104 cities in 18 countries, and controlled assets valued at approximately \$23.8 billion. The firm has developed, acquired and managed properties totaling more than 488 million square feet of office, residential, mixed-use, industrial, hotel, medical and sports facilities, as well as large, master-planned communities and land developments.

Hines is also a world leader in sustainable real estate strategies, with extensive experience in LEED®, ENERGY STAR®, BREEAM, Haute Qualité Environnementale and DGNB green building rating systems.

Mr. Hines has worked closely with leading architects including Frank Gehry, Pei Cobb Freed, Jean Nouvel, Philip Johnson, Cesar Pelli and Moshe Safdie. He is a recipient of the J.C. Nichols Prize for Visionary Urban Development, and is an honorary Fellow of the American Institute of Architects.

Among his proudest accomplishments are the support of the Gerald D. Hines College of Architecture at the University of Houston and the establishment of the ULI/Gerald D. Hines Student Urban Design Competition.

The Cornell Real Estate Review had the pleasure of having the following conversation with Mr. Hines:



Where did the global organization that is Hines today start?

Well, we started as a pure developer. To give you some background, I came back to Purdue after the war in 1948 and finished my mechanical engineering degree. I was earning \$50 a month and I thought that was pretty good; I didn't have to wait tables at the fraternity house any more. After graduation I made my way to Houston, TX, and had an opportunity to partner with Art Byrons who had been the Dean of Engineering at the University of New Mexico. Art was the first professional mechanical engineer to go into business in Houston.

We designed mechanical systems for buildings and we also sold the equipment. Given that I understood buildings and how they operated, I thought I would try my hand at building one. For the first few years, I did my building projects on the side. I started with a 5,000-square-foot building. I enjoyed the process, so I built a few more buildings. One was a 40,000-square-foot building of which 10,000 square feet was office. I had engaged Walter Rolfe on this project; he had been the Dean of Architecture at the University of Texas. With his help, we built an outstanding office warehouse, probably one of the best that had been done at

the time. Then we built and sold a whole group of other warehouses, about 180,000 square feet in all, for Western Auto.

At this point were the wheels really turning to make this your full-time profession?

Yes, it took about four or five years before I had enough cash flow above debt service to support my family with my development efforts. I opened my office in 1957; it started with just my secretary and me. We were mainly involved in building new office and warehouse facilities. In the early 1960s we took on our first residential project, a 16-story apartment building called The Willowick.

That was our credential to try and get the 300,000-square-foot lease from Shell when it was looking for its Southwestern U.S. headquarters. When we finished that project, Shell liked it so much that they decided to move their entire corporate headquarters down to Houston. Adjacent to that first building, we were constructing a 500,000-square-foot office building with a garage beneath it. Shell decided to move its Southwest office to that smaller, second building and its corporate headquarters would take the primary tower One Shell Plaza. With the help of Fazlur Kahn, the legendary structural engineer with SOM, we were able to construct the tallest lightweight concrete building in the world, definitely a building that differentiated itself from others.

How did you separate yourself from the other developers that were bidding on the Shell project?

We were awarded the Shell job because we discovered that Shell changed a third of their office space each year and the costs to move walls and relocate people were huge. They were occupying buildings at the time that were 11'4" floor to floor. I decided we could take it up to a 13' floor-to-floor height. I had grown up in

Midwest and knew about gravity air systems. They are very easy to change. They run off a low pressure drop and are incredibly energy efficient. Additionally, we were the first to use double-pane windows with reflective glass. Our buildings had the lowest operating costs. What we didn't realize was where the world was going with communication and the Internet. But, we had all the space available between floors and had ample opportunity to keep them up-to-date with the extra floor-to-floor space. One Shell Plaza was our first project with a major international architectural firm, and it marked a transition for us from suburban to urban development.

What has Hines focused on over the years that has allowed the Company to remain a leading developer?

Design, architecture and energy efficiency have informed our development decisions from very early on. I always liked architecture. As an engineer I could try to understand what they were doing. I have been fortunate to have worked with some very interesting architects. Bruce Graham from SOM was a partner I met by chance in Point Clear, Alabama, on the golf course. We talked about what they were doing and how they combined structure and architecture. I liked what he came up with. One Shell is still a beautiful piece of architecture and a very classic building after 40 years. In fact, we just renewed Shell's lease for another 15 years.

I should also mention that you have to have a great deal of expertise to interface with architects, engineers and contractors. As our business started to grow, we established a whole group dedicated to building systems; it allows us to control every part of the process. We have a Conceptual Construction group that chooses the architects and engineers on every project. Then we choose the mechanical/electrical and all engineering systems, and continue to manage them intensely. This is very costly up front, but we are able to achieve cost savings over time that most are unable to; we avoid a number of those big surprises that can really

kill an otherwise successful project.

Where do you find the greatest amount of energy savings in your buildings?

A tremendous amount of energy savings comes from building high quality at the outset. Those buildings are not only more efficient operationally, but they allow you to maintain tenancy without destroying the building. Constructing a new building requires a tremendous amount of energy. We just changed out all the windows in One Shell after 40 years. We did eight to 10 windows a night; it was done seamlessly with no disruptions to the tenants.

Later-stage buildings like 101 California in San Francisco, those that are say 30 years old and newer, were built after the glass industry boomed in terms of technology. With that said, those buildings are pretty close to updated.

Have you ever considered bringing architecture and planning practices in house? Or do you think it would detract from the healthy tension, dialogue and flexibility that come with hiring third-party architects on a project-by-project basis?

Absolutely not – that would breed a very stereotypical response and that would be the death of our organization's time-honored process. We believe in competition for ideas. We are constantly looking for ways to differentiate our product. Whatever communities we go into, we want our buildings to have a reputation.

If our company and the buildings we develop have an outstanding reputation, we will be the last to lose tenants and the first to gain tenants through the market cycles. That is where you get yield over time. Additionally, you have to maintain that reputation through intense building management. For instance, we just brought in an equity partner group for 101 California in San Francisco. After nearly 30 years, the building is still in incredibly good condition. One of the investors sent an engineer over, he said, "I bet I'm going to find a lot. After all, this is a 30-year old building." After the inspection, he said, "This building looks brand

new.” That’s because of our intensely focused property management.

Another good example is Shell Plaza. We sold it for \$535 million. The two buildings were built for a total of \$62 million; we had spent \$130 million on improvements such as changing all the glass, bringing the elevators up to 100% today’s technology, completely renovating or replacing the mechanical equipment. Our chillers lasted 40 years, rather than the normal 25 to 30 years, again because of our management and maintenance.

How do you describe the culture of Hines today?

We believe in a platform to share company success with individuals. We give 50% of the equity to our lead people. I don’t know anyone else who does that. It takes a while to become a partner and we try to grow from within. That way we know all aspects of that potential partner. With the investment of time, partners have an opportunity to become extremely successful.

As you mentioned, the Hines organization is known for developing and promoting talent from within. What qualities do you consider key indicators of success in a potential employee?

We expect anyone coming to work at Hines to have a good education and a passion to learn. Those who succeed here tend to be very nice people; people you would want to have lunch or dinner with. They have good interpersonal skills, have high integrity and do exactly what they say they’re going to do. A great example is Hasty Johnson. He was the chief financial officer, now he’s the chief investment officer. We have gone on ski trips throughout Europe and the world, and we invite other interested Hines people to join in. You really get to know people in those different settings.

With offices in 18 countries and over 100 cities around the globe, would you like to see Hines focus on further penetrating those markets or would you like to continue to grow into other markets?

Both – we will look at other opportunities. However, we are not interested in adding countries or cities for the sake of growth. We will only go elsewhere if it makes sense for the organization and we have people who want to go there. It is crucial having qualified people who can, and have the desire to go to new countries. We always try to go deeper into countries that we’re already in. The last move we made was into Australia. We have always wanted to go into Vietnam; it’s probably better that we haven’t yet though, it’s a very difficult market. Again though, we really aren’t looking just to add flags. We don’t need to be any bigger to be successful.

PERSONAL PHILOSOPHY

You seem like a person who appreciates not only good design, but also simplicity – as exemplified by your use of the slide rule. Do you think real estate analysis has become too technical and reliant on complex proformas to make decisions? Have we lost sight of the big picture?

Well, you have to analyze the details. Sometimes it does become over sophisticated. You have to be able to feel a market and its potential problems. Too many people depend on just Excel and other programs. I learned a lot as chairman of the Dallas Federal Reserve when we went through the 1981-82 recession. We had 15% Treasury rates and 25% bank loan rates. It wiped out the real estate community.

It’s also important to recognize that development has cycles. You have to be able to manage assets along with analyzing new deals for acquisition and development. That’s a skill that we have because of our technical ability. It’s an important part of our firm that my son, Jeff, initiated.

ADVICE

You have provided a lot of time and resources to students in academic programs and participating in events such as the ULI/Gerald D. Hines Student Urban Design Competition. What is the most important thing students should learn or take away from these programs and competitions?

Real estate and business in general for that matter, is a cooperative effort. You need depth of professionalism in all of the other aspects of real estate. It’s not a one-man show – especially on complicated buildings in a competitive environment. It’s easy to have a great project at an expensive cost. It’s much harder to do a great project at a competitive price. The latter takes a lot of knowledge, effort and discipline. That’s not easy to acquire.

Students who have participated in the ULI competition generally feel that it has been one of the most important aspects of their education. It simulates the real world and that interchange with law, planning, architecture and all the different disciplines. Real estate is not done in isolation.

PERSONAL

If you weren’t in real estate, what would you be doing?

Well, that’s tough because I really enjoy real estate. I enjoy the process of making and providing great buildings at a reasonable cost. I guess I’d be a businessman of some sort, but the gratification might not be the same. Assuming I had gone to Houston like I did, perhaps I would have thought about the oil business. It just wouldn’t be the same though. When you drill a well, you don’t see physical exemplification of your work product like you do in real estate. I love that aspect and it’s important to me.

You are also known to be an avid biker, runner, backpacker, skier and so on. Can you tell us how your outdoorsmanship feeds your professional philosophy?

Actually I don’t run that much anymore, but I am still doing the other activities. As you know I’m still serving as chairman of Hines. I’m also skiing better than I’ve ever skied. I just spent 10 days skiing in Colorado. I’ve got the real edge on that “inside ski” now. If you’re a skier, you know

what I'm talking about. Given that we are a global business, doing projects in different parts of the world, Italy, China and Brazil, allows for the opportunity for some great adventures as well. It's been a nice balance between professional life and having some wonderful outdoor experiences.

Where do you find inspiration?

At Hines, with respect to our development business, inspiration comes from the bottom up, not the top down. Our organization is broken into groups. There are five CEOs who run their particular divisions – Europe, East Coast, Midwest (Canada, Southeast, Midwest, Brazil), West Coast (West Coast and China), Southwest (Southwest United States, Mexico and Panama). People in those different cities run their own projects and they report to that CEO. Our Executive Committee runs the overall firm. My son Jeff presides over the Executive Committee. That's how the organization is run and it works pretty well.

Is the sailboat that you were building in Southampton England completed yet? Where did, or will, you sail first?

It was completed a little over two years ago. It's a 44.7-meter aluminum sailboat designed by Dubois, a Southampton (UK) naval architect. It was then built by Bitters in Holland. We have sailed in a number of different areas. We really enjoy sailing in French Polynesia, the Caribbean...we are going to do Europe this summer. However, with more grandchildren it's getting harder to get my wife to move around.

In your spare time, to the extent that you have spare time, what do you read?

I tend to like biographies. I'm reading one now on Thomas Jefferson. I'm also reading one on Calvin Coolidge.

Each year, the Baker Program in Real Estate, in conjunction with the Cornell Real Estate Review (CRER), awards the Industry Leader Award which recognizes transformational leadership in the real estate industry. Formerly known as the "Executive Profile" appearing in the Cornell Real Estate Review, this award is a top honor given to those with the influence and integrity to have created a lasting legacy within the industry. Past recipients include: Robert Duncan, chairman, co-founder, and managing principal of Transwestern Investment Company, a privately held real estate firm specializing in agency leasing, property and facilities management, tenant advisory, capital markets, development, research and sustainability; Art Gensler, founder and CEO, Gensler, a global architecture firm; Andrew Florance, founder and CEO, CoStar, the commercial real estate information company; Samuel Zell, chairman and president, Equity Group Investments, a major Chicago-based private real estate investment firm; and William Sanders, chairman, Verde Realty, a leading developer, owner and operator of corporate facilities on the U.S.-Mexico border.

INDUSTRY LEADER AWARD WINNERS

2012

Larry A. Silverstein
Silverstein Properties



2011

Robert Duncan
Transwestern Investment Company



2010

Art Gensler
Gensler



2009

Andrew Florance
CoStar



2008

Samuel Zell
Equity Group Investments



2007

William D. Sanders
Verde Group, LLC



Celebration of 2013 Industry Leader



Discussing the Hines Urban Design Competition with Pike Oliver (Sr. Lecturer, City and Regional Planning) and Mark Foerster (Faculty Fellow, Baker Program in Real Estate)



Dean Kent Kleinman (AAP) Rodney Harris (Baker Program in Real Estate, 2014), and Bob Abrams (Advisory Board, Baker Program in Real Estate) hear stories from Mr. Hines' career



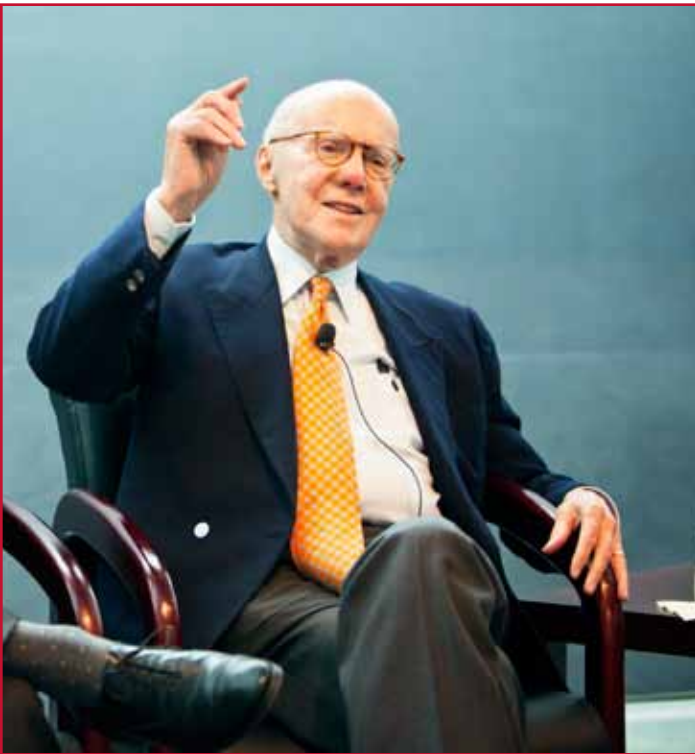
Gerald Hines is interviewed (L to R) by Dean Kleinman, Jason Patch (Cornell Real Estate Review Editor and Baker graduate 2013), and Dean Michael Johnson (SHA).



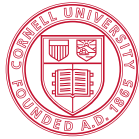
Jessica Coulson (Cornell Real Estate REview Editor, Baker Program, 2013) and Jason Patch present Industry Leader Award to Gerald Hines



Gerald Hines, 2013 Industry Leader



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