

executive profile



In October 2007, Sam Zell was the keynote speaker at the Cornell Real Estate Conference, aptly titled “Real Estate Titans.” Zell, equally well-known for his ebullient personage and his contrarian investment philosophy, had recently completed the now legendary EOP sale to Blackstone, and was moving toward closing the deal for the Tribune Co.

The Chicago-born son of Polish immigrants, Zell began his prolific career by buying student housing in Ann Arbor while still a student at the University of Michigan. He and his longtime business partner, Robert Lurie, went on to build one of the nation’s largest portfolios of real estate.

Zell’s philanthropy is well-known in real estate circles: He has made gifts to found the Zell-Lurie Institute at the Ross School of Business at University of Michigan, the Zell Center for Risk Research at the Kellogg School of Management at Northwestern University, and the Samuel Zell and Robert Lurie Real Estate Center at the Wharton School. And, long past his days of buying apartment buildings in Ann Arbor, Zell has also given financial support to his alma mater.

With this in mind, the Editorial Board of the Cornell Real Estate Review

sat down with Zell to ask him about his own education, as well as what you can learn in school—and what you can’t.

Editorial Board: You have given a lot of money toward funding academic programs. What is the most important thing you learned—or the most important thing anybody can learn—in school?

Sam Zell: Well, to say that that’s a broad question would be an understatement. My in-school experience was significantly different from that of my peers. I had started a real estate company in college and I kept building it through law school, and by the time I graduated, it was a pretty serious business.

But I think that the best answer to that question is that school is not about (what you learn in class), it’s about learning how to think. For example, after graduating from law school, I only practiced for a week—which is another story—but not a day goes by where the legal training doesn’t help me in some way. That’s because legal training is all about your ability to ask questions, not necessarily knowing the answer. Grades were only a partial motivation for me. But when I think back to what I got out

of the experience, I think that it honed my mind and taught me how to think. It certainly has led to me making better decisions and being more successful.

EB: Your on the job training outside the school, something you learned working that you never would have found learning in school and when you look back on school, it would have never prepared you for. And the most important lesson that you learned out of school?

SZ: In 1990, I learned that liquidity equals value. 1990 was the bottom of the real estate depression. It was a time where all of the dedicated lenders in the industry had just gone away. I mean, there was this massive industry, a huge capital consumer, and literally there was no money. One day I picked up Forbes magazine that told me I was worth a billion dollars, but I was scared to death about making payroll on Friday. So if you ask me what the single lesson I learned was, liquidity equals value. You have no value if you have no liquidity.

EB: And how did that influence your future strategy?

SZ: I liquidized my holdings. I went from one of the single largest real estate owners in the world, leveraged to the eyeballs, to an owner of liquid securities. I had less ownership, but I had liquid securities in companies with real balance sheets.

EB: You talked a bit about education should be about learning how to think. What do you feel is the biggest knowledge gap among recent graduates in terms of the way things are done in school, and the way business works?

SZ: Generally, younger people rely much more on numerical solutions and are limited in their ability to exercise their gut. And the difference between a superior player and an average player in almost every business, is the difference between somebody who might be able to be very successful at process...but not necessarily successful at what I call the big picture.

EB: Given that, how do you feel that you can harness the ability of the younger people and use their skills in the industry?

SZ: Oh, you turned that around (laughter)! Until they get tired of being grunts and then they say, “well I don’t want to be a grunt.” And then I say, “Well you gotta start thinking instead of just doing.” I have a philosophy that there’s some kind of a minimum intelligence quotient that is required to be successful in my world. I have no idea what that is, but my guess is that it’s 120 or something. Above average, not a rocket scientist, but basically if you have an IQ of 120 you can do anything...except design rocket engines (laughter). For that you need an IQ of 180. But other than for that kind of task, once you get past what I call, the cusp, everything from there depends more on your motivation, your values, and your drive. It’s just like how five years out nobody really cares where you went to school...or I don’t know, maybe five minutes out. After that, everybody is trying to get over the cusp. And the cusp is very much the transfer from what I would call rote activity to a much more open, intuitive approach.

EB: So how do you change these grunts into thinkers?

SZ: I think the answer is, I can’t. They can change themselves, but I can’t. And now you’re talking about taking the initiative, taking a step or two further out on the plank. Taking more risk. In my firm and any other firm, sometimes you have people who unequivocally outworked everybody, just outworked everybody, period. And maybe they weren’t the smartest, but they were the best informed, they got the most done and were rewarded accordingly. When it’s all said and done, it’s about initiative. I can only be a mentor, I can’t be an initiator. If you’re working for me and I have to kick you in the ass to get you going, it ain’t gonna last long, OK? because nobody every kicked me in the ass and said, “Come on Zell, get going.”

EB: You really believe that it has to come from within?

SZ: I can make what there better. If you don’t have it, it’s like when you play cards. Have you played bridge?

EB: No, I haven’t.

SZ: Have you played hearts?

EB: Yes, I’ve played hearts.

SZ: It’s like when you sit down with somebody and they don’t have any card sense. It has nothing to do with their intelligence, they just don’t have the ability to picture where other cards are located and read information that the other cards generate. And in the same manner, there are people who are very competent, who succeed in a very structured environment, but fail miserably in an unstructured one. We want to attract certain kinds of people, the kind with initiative and that innate sense.

EB: Do you see that an increase in graduate degree holders, for business or for real estate, has significantly changed the industry as far as—

SZ: Would it hurt your feelings if I tell you I hadn’t noticed?

EB: No, not at all (laughter).

SZ: I hadn’t noticed. I think that continuing your education beyond a bachelor’s level is a very healthy thing. But effectively, if you don’t do it here, I gotta do it there (in the workplace). So a year out, everybody’s in the same place. I can’t use you if you don’t have the skills and if you have the skills already, that means you saved me a year or two. And if you don’t have the skills, I gotta give them to you or get rid of you. And maybe that’s too subtle, but I could talk slower if you want (grins).

James: If you were to teach a course in real estate at one of these graduate programs somewhere in the country, what do you think you’d want to teach? What would be the title of your course and the content?

SZ: A number of years ago, an alumnus of the University of Michigan died, and he left the university some kind of an endowment. And the terms of the endowment were that each year, a stipend from the endowment would be made available and awarded to someone to come teach a course at the undergraduate level, honors, seminar, on any subject they wanted. And the university came to me and said, would you like to be the visiting professor for

the year, or for the semester? And they explained to me the terms and I said, I would do it if they would give me a Noah’s Ark class. So I had one student from math, one from biology, chemistry, and religion and astronomy. I had 20 different disciplines in the room and the subject matter was risk. Pure and simple. And we spent the semester talking about all different kinds of risk. And some types of risk were obvious to them, and some were risks they didn’t even know they were taking. I went into reputational risks and reinvestment risks and all kinds of different elements. And my conclusion when I ended was, that for the students who were really into it, it was terrific, because you could just see that I was getting through to them.

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EB: And how did you structure the class?

SZ: It was a seminar and I met with them for three hours a seminar, six times during the semester. And, I would hand out stuff and give them assignments, but I used the newspapers more than anything else. And I thought it was an extraordinary course for this purpose. I thought it was very much a challenge. And by the way, there’s a big difference between teaching that kind of a course and teaching a real course. Because then, a few years later I decided I wanted to teach a real course. Then I came to grips with what the faculty requires in terms of the kind of preparation, you know, and I said, hey I have another job (laughter) and so I lectured periodically but I haven’t taken on the teaching job again yet.