THE REAL DEAL

NEW YORK CITY REAL ESTATE NEWS

October 1, 2012

The 'development' of a CEO

Jeff Blau, the newly minted CEO of the Related Companies, has been preparing to take over for decades. So what's he going to do now that he has?

By Adam Piore

Jeff Blau is the Related Companies' first CEO to succeed company founder Stephen Ross.

For many students, college is about streaking the quad and doing keg stands. For Jeff Blau, it was about doing deals.

When the Long Island native was a sophomore at the University of Michigan, the school shut down its printing office to save money. So Blau set up a business producing course packs himself. Then he convinced his professors to let him hire their teaching assistants to take notes in their classes — and sold those notes to his classmates at a profit. As an undergrad, he was also involved in real estate, teaming up with a local contractor to buy single-family homes in Ann Arbor and subdivide them into student apartments.

Blau's entrepreneurial flair didn't fade when he arrived at the Related Companies in the early 1990s.

"Jeff was notorious for creating new businesses and having very innovative ideas," recalled Marty Burger, who worked at Related for 15 years and is now co-CEO of Silverstein Properties. "Early on, he got [Related owner] Steve Ross to back him and bid on a casino license in California. He almost pulled it off."


Stephen Ross

Blau will have plenty of opportunity to implement more big ideas in the years ahead as CEO of the mammoth real estate development company behind the Time Warner Center and Hudson Yards. Last month, Ross officially stepped down from the CEO spot and elevated Blau, his 44-year-old deputy, to the position. Ross also appointed executive vice president Bruce Beal, Jr. to succeed Blau as president.

Ross, who is still chairman and majority owner, will remain involved in projects of his choosing, including Hudson Yards. But Blau will oversee much of the generation and financing of new deals, while Beal will focus on implementing the deals in the pipeline.

The timing of the succession announcement took some by surprise: Ross, also a Michigan alum, broke the news spontaneously during a speech at the University of Michigan's Ross School of Business,
(which was named after him in 2004). But the succession plan itself has been in the works for years.

Ever since Blau took over as Related's president back in 2000, Ross has been gradually handing over more duties to his successors so that he could focus on whatever interested him, associates said.

Until recently, "Jeff was doing the work and didn't have the title," said Steven Spinola, chairman of the Real Estate Board of New York, the industry's biggest trade organization. "Now he's got the title."

Ross is still "intimately involved in the business," said Alan Wiener, vice president of the institutional owners division at Wells Fargo and a longtime Related lender. But "he has delegated an enormous amount of responsibility to both [Blau and Beal]. That is how you do succession."

Indeed, Ross, a former tax attorney who founded the business in 1972, is nothing if not deliberate.

"We didn't build this up to be the largest development company in the country without thinking through all the details," Ross told *The Real Deal* last month. "You always have to have contingency plans. Things happen, people leave, bad events happen to people sometimes.

"It's like owning a baseball team or a football team," said Ross, who owns the Miami Dolphins. "You see your stars and you grow them. I knew this guy was good, and I grew him."

Hudson Yards

Emerging rock star

A product of Bayside, Queens, and Woodbury, Long Island, Blau started in business early. As a kid, he said, he had "every single business you could think of: a lemonade stand, bagel delivery, a paper route."

His father was a builder and a contractor, and Blau spent his summers working on job sites and accompanying him to meetings.

Bruce Beal

When he was a junior at Michigan, Blau signed up for a graduate-level real estate development class. He was one of perhaps three undergraduates out of a class of 50, recalled Peter Allen, the developer who taught the class and headed the real estate department at the time. The rest of the students were MBAs, law students and those seeking master's degrees in urban planning, architecture, construction and engineering.

Even so, Blau earned an A-plus, and Allen was so impressed by his final project — a proposal for a mixed-use development — that he offered Blau a job at his real estate firm in Ann Arbor.

QUICK FACTS
NAME: Jeff Blau
TITLE: CEO
AGE: 44
EDUCATION: University of Michigan
HOMETOWN: Woodbury, Long Island
C**URRENTLY LIVES IN:** 1040 Fifth Avenue

Blau turned him down.

"He was one of the rock stars of the class," Allen said. "He just naturally understood the field. He was so good — not just at the financials, but the big picture. He could quantify all these issues of mix and density and quality and architecture. That is a hard thing to do."

That year, the university held a real estate forum and invited Ross to deliver a keynote address. When Ross asked Allen who his best student was, Allen didn't hesitate.

"He told me, 'We have one of the brightest kids I've ever seen come here,'" Ross recalled. "'He wants to come to New York. You've got to hire him.'"

Ross offered Blau an internship, and then, when Blau graduated the following year, a job. By the time Blau graduated in 1990, however, the market had crashed.

The previous year, Blau had applied and been accepted to both Harvard Business School and Wharton. But he deferred for two years. Now frustrated, Blau called Wharton and asked if he could start immediately.

Ross, however, was not ready to let him go.

Blau came up with a compromise. He kept his apartment in New York, and rented a second one in Philadelphia. For the next two years, he commuted, taking classes on Mondays and Wednesdays and working at Related the other three weekdays and Saturday.

Within months, Ross had moved Blau from the far corner to a desk right outside his office. From then on, recalled Blau, "I was always working side-by-side on whatever Stephen was focused on."

Since Related's projects were complex, there was plenty that Blau needed to learn. Ross prided himself on tackling projects that scared away competitors. He spent his early years developing subsidized housing, which he financed through government loans and funds raised from syndicates of investors. Then he moved on to so-called 80/20 buildings: rentals backed by tax-exempt government bonds, with 80 percent market-rate units and 20 percent low-income units. Both kinds of developments and many that followed required mastery of complicated approval processes as well as city, state and federal tax incentives.

Ross taught his protégé that when it comes to deals, "the more complicated, the better," Blau said. "Because you've got a lot of people in this business, and you've got to figure out what your competitive advantage is."

It would be a long apprenticeship. "You can't learn this business in school," Blau said. "You just have to do it. You do it deal by deal; it's on-the-ground experience."

Ross dispatched Blau to run financial models, and brought him along for meetings with architects. But the most pressing order of business initially was simply ensuring the firm's survival during the downturn of 1990, when Related was far more exposed than after the 2008 financial crisis. Some of the deals were recourse loans signed by Ross, which would have allowed lenders to go after the rest of the company if Related defaulted.

Related bought the 52-story Tribeca Tower
in 1994, with a young Blau taking the lead on the deal.

Blau was by Ross's side as he and others in the firm restructured $100 million in unsecured debt and, in late 1992, when Ross raised $40 million by selling a 30 percent stake in the company to friends and family. (Ross eventually bought the stake back.)

Blau helped Ross and his other deputies put a new "corporate infrastructure" in place, to transform Related into a company with investors and different divisions, so "it wasn't just about Stephen signing, it wasn't all on him; it was about the company," Blau explained.

The new investment not only allowed Related to survive, but it freed the company up to pursue opportunities — and do bigger deals than it ever had before — while many of its rivals were still mired in workouts. In the fall of 1994, Related partnered with Apollo Real Estate Investment Fund (now known as AREA) to purchase Tribeca Tower, a 52-story, 440-unit condo in default. Related turned the property into a rental, converting it to an 80/20 building and bringing in bond financing.

The building was far bigger than any development Related had worked on before, and it was also a seminal deal for Blau. While Ross remained deeply involved, he allowed Blau to take the lead and serve as project manager.

Around this time, Blau was cutting his teeth on another watershed development. On the plane to the International Council of Shopping Centers spring convention in Las Vegas, Blau and Ross sat next to a real estate broker whose brother-in-law owned a huge chunk of land on the south side of Manhattan's Union Square. Within months of that chance meeting, Related had acquired the site and became a major player in the expected revitalization of the area.

Hoping to expand Related's Union Square portfolio even more, Blau visited the Park Avenue home of an elderly woman, who owned an abandoned building on the north side of the square. Over tea, he tried to convince her to sell Related the site. Eventually, she granted the company a longterm lease, and Blau convinced the chairman of Barnes & Noble to move the mega-bookstore into the space.

Despite his young age, Blau was able to make a mark because Related was "the kind of place where titles didn't matter," said Silverstein's Burger.

"Whatever you could tackle, you just took on. You weren't restricted from doing things because you weren't at that level," he said.

In the years following the downturn, Burger said, Blau approached banks and equity partners to back the firm's future business. Blau struck up a relationship with the German financial institution Hypo Bank. He also cold-called the new real estate specialist at the Ohio State Teachers' Pension Fund, and started a relationship that produced tens of millions of dollars in financing.

After the downturn brought much of the business to a virtual standstill, Blau "basically restarted Related's 80/20 business through relationships with lenders and equity partners," Burger said.

The big leap

In 1998, Related made its first move into high-end condos, shelling out between $40 and $45 million to purchase and renovate 23 condo residences at 279 Central Park West, at 88th Street. The 24-story building, designed by architect Costas Kondylis, had been handed back to a group of Japanese lenders after the project's original sponsor went bankrupt.

Time Warner Center

Related also began work on a new-construction, 32-story, 100-unit tower at 65th Street and Third Avenue, designed by Robert A.M. Stern, called the Chatham. Blau moved into the penthouse, which he designed himself.

Soon after, the company took two huge leaps that placed it into a new league altogether. First, Related beat out Mort Zuckerman's Boston Properties, Larry Silverstein, Douglas Durst and others to win the right to develop 650,000 leasable square feet of office space for publishing giant Random House's world headquarters at West 56th Street and Broadway. On top, they built the Park Imperial condominium.

Second, the firm won the most coveted deal of all — the right to develop the long-stalled Coliseum site at Columbus Circle. Many were predicting that the 2.8 million-square-foot, mixed-use complex would become the "Rockefeller Center of the next century."


Richard Parsons

Ross and Blau won the job by convincing Time Warner CEO Richard Parsons to sign on as an anchor tenant, making that the centerpiece of their proposal to the city, along with showcasing Jazz at Lincoln Center prominently and promising to elevate the neighborhood with upscale tenants. (One of the competing proposals, recalled Blau, envisioned a Sears on the ground floor. Related lured tenants like the Mandarin Oriental, Coach, Armani Exchange and Hugo Boss.)

"Our biggest deal to that point had probably been a $150 million deal," Blau said. "The Bertelsmann Building [for Random House] was a $400 million deal. It was a big step up for us."

And the Time Warner, he said, "was about $2 billion."

In January of 2000, soon after winning the Time Warner deal, Ross promoted Blau to president of Related. He was 31. By then, he had been involved in 25 deals exceeding $2 billion, with another almost $3 billion worth of property under construction.

In his new role as president, Blau was responsible for overseeing Related's day-to-day operations. But his job description quickly expanded, as he took over the smaller affordable-housing projects that still comprised the firm's bread and butter, and focused on big-picture projects and expansion to overseas markets.

In recent years, Blau has "been kind of taking a lot of CEO responsibilities," Ross explained, "with a lot of different areas reporting to him that I didn't want reporting to me, so that I could do what I want to be doing."

Despite the change in title, Ross is likely to be at the center, alongside Blau, in many of the company’s endeavors.

“Stephen, at this point, has the luxury of picking and choosing what he wants to work on and spend time on,” Blau said. “Today, he spends the largest part of his time on Hudson Yards. … It’s so impactful, so city-changing — he spends more than half his time on that.”

Team players

As their relationship has evolved over the last 10 years, Ross, Blau and, increasingly, Beal have worked hand in glove. In early 2007, when Related was putting together its first bid on the Hudson Yards project, the firm began to talk about ways to “set ourselves up for the long-term,” Blau said.

For years, Related had been going to pension funds and banks to raise capital deal by deal. But the firm has since chosen a different path, selling a 25 percent stake in the business to investors, including Goldman Sachs, computer magnate Michael Dell and the Kuwaiti Investment Authority among others. (Ross, Blau and Beal own the remaining 75 percent.)

The firm ended up losing their initial bid for Hudson Yards after its prime tenant, News Corp., pulled out just hours before final bids were due to the Metropolitan Transportation Authority, the state agency that owns the site. But a few months later, on a Friday afternoon in May 2008, Blau’s phone rang as he was preparing to leave for the weekend. Tishman Speyer, which had won the bid, had withdrawn, the caller told him. Was Related still interested?

Blau headed straight to the offices of the MTA’s lawyers at Paul Weiss and spent the remainder of the weekend there hashing out a deal.

“Steve was in China, I was limping around — I’d torn my ACL skiing,” Blau recalled. “We were there all weekend and I think the deal was announced on Monday.”

The result was a $1 billion long-term lease with the opportunity to transform a 26-acre development on the Far West Side.

Lehman crashed just four months later, which delayed the project for months. But thanks to the timely infusion of capital the previous year and its 1990s restructuring, Related was in a far better position than many of its competitors. Even so, the firm did have some exposure; its projects in Aspen, Colo.; Waltham, Mass.; and Arizona derailed.

In 2006, Related had entered into a partnership with camera giant Polaroid to transform its 119-acre headquarters in Waltham into a $500 million mixed-use development. But by December 2008, Polaroid had gone bankrupt. Eventually, lenders took control of the project and auctioned it off for $40 million.

Related and its development partners also ran into problems on a $1.2 billion, 144-acre project outside of Phoenix. In June 2009, Nordstrom and Bloomingdale’s pulled out as anchor tenants, complaining the developers had failed to make sufficient progress. The project went into foreclosure that December.

“Going into the downturn, we were probably more exposed than we wanted to be,” Blau said. “There are points in the cycle when you should just not be building when things get too frothy.”

But, Blau added, “we went into this downturn in a much better position then we went into the 1990 downturn, so the company was much more able to weather the storm.”

With development frozen, Related looked for other opportunities. It began doing advisory business for banks. In its most high-profile deal it even served as construction manager of the Cosmopolitan Resort in Las Vegas on behalf of Deutsche Bank, which had made a $760 million loan that had gone into default.

In doing the advisory work, Related found that most of the banks, however, had little interest in putting more capital into construction deals that had gone bad, even if there were profits to be had when the projects were fully developed. Some asked Related if it would be interested in buying the properties.

So Related hired real estate financier (and fellow Michigan alum) Justin Metz from Goldman Sachs and launched a new business line, raising a $825 million distressed equity fund. Since no banks were lending, they also raised $250 million for a construction loan fund.

As the market has picked up, the big deals for Related have continued.

In addition to the 13 million-square-foot Hudson Yards project, Related recently won the right to build a 1 million-square-foot, retail-and-entertainment complex at Willets Point.

As for Blau, “Jeff has done extremely well in any sense of the word,” Ross said. “He has been able to achieve all the financial success that he envisioned, and he is a very, very wealthy man today.”

Indeed, last January, Blau sold the penthouse he designed back in the 1990s for $14 million. With a growing family — Blau and wife Lisa have two young children — he moved into a $21.5 million penthouse at 1040 Fifth Avenue soon after.

Some observers wonder what impact the end of the Bloomberg years will have on Related’s fortunes — the firm has long enjoyed close ties with the administration, and some critics maintain it has helped win them the inside track on deals.

But whatever the outcome, the company is only likely to continue to expand under Blau’s leadership.

“Our goal here is to really create one of the world’s best development companies,” Blau said. “To do that you have to continue to expand, continue to push and be innovative. You can’t keep doing the same thing over and over again in this business, or you are going to be a dinosaur.”

Next in line

Why grooming the future CEOs is so crucial for NYC development companies

Jeff Blau's ascension to CEO at Related is by no means the only generational transition underway in New York City real estate.

Larry Silverstein and Marty Burger

Last December, Larry Silverstein, 81, elevated Marty Burger, 46, to serve alongside him as CEO of Silverstein Properties. At Tishman Speyer, Rob Speyer, 42, has been sharing the CEO duties with his father Jerry, 72, since 2008. Donald Trump, 66, has three of his children working for him. And at Two Trees Management, Jed Walentas is now in charge of daily operations for the company he runs with his father, founder David Walentas.

It's anyone's guess when any in this new generation will fully take over leadership. Often, the challenge for NewT York moguls is less about finding someone capable of taking over and more about how to create the right role for them without giving their own job, said REBNY chairman Steve Spinola.

"I don't think people in real estate ever plan on retiring," said Spinola. "It's what they do — it's what they love doing."

Jed Walentas

"Real estate developers never retire," agreed Donald Trump. "Real estate is our form of plastic surgery — we don't get a face-lift, we fix another building."

In that sense, the co-CEO approach chosen by Silverstein and Speyer, along with Stephen Ross's continued role as chairman at Related, provide a compromise of sorts.

In any case, most agree that deciding when to officially hand the reins over is far less important than the grooming of those likely to take them.

"You don't go to school to be a developer; you've got to learn it through a mentorship," said Richard LeFrak, 67, who began working for his father during summer vacations when he was 13.

His sons, Harrison, 40, and James, 39, began working for the family company, which owns 400 mostly self-developed buildings, when they were in high school.

LeFrak's sons are both partners in the business, and "have the experience of actually having their money at risk and sucking it up," LeFrak noted. He expects both to eventually take over and run the company as co-CEOs.


Richard LeFrak (center), and sons James (left) and Harrison

"Each one has different skills and strengths," LeFrak said. "One is an engineer, so he has a little more interest in construction. One has more of a financial background and a law degree, so he does more of the corporate stuff. They share responsibilities, decide what they are interested in and pursue those interests. But everything is participatory; nothing is in a silo."

As a result, "each one now has the skills of a CEO. Each one has more skills than I do at this point."

Trump has also been actively making sure his children get on-the-job training. All started working together on projects when they got out of college. Among them: the 72-story Trump World Tower across from the United Nations, completed in 2001, and the 2004 conversion of the Hotel Delmonico into the Trump Park Avenue.

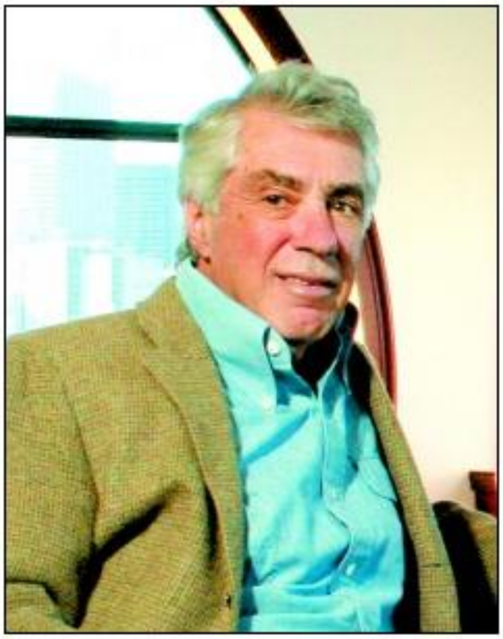
After they got a little experience, "we split them up, which is good because you can do more," said Trump. Currently, Ivanka and Eric are deeply involved with the $200 million development in the Doral Golf Resort and Spa in Miami, while Donald Jr. has taken an active role in Trump's $150 million golf resort in Scotland.

"They do everything a developer does, from conception to building," Trump said.

"There's nothing like having your children in the business when it works out well," he added. "They are all certainly capable of taking over at the right time. So far I'm feeling good, so we'll see what happens."

Larry Silverstein is taking a different approach to his succession. His son, Roger, manages all of the company's commercial leasing, while his daughter, Lisa, manages residential development. To find a successor, however, the family hired a headhunter, which helped recruit Marty Burger in 2010. Burger had extensive industry experience, running his own development company, Artisan Real Estate Ventures, serving as an executive vice president of Related and working at the Blackstone Group and Goldman Sachs' Whitehall Real Estate Funds.

“Larry had a lot of conversations with Roger and Lisa about whether they wanted the business to be here long-term, or sell everything and stop,” Burger said. “They wanted the business to continue. So they decided to have someone run the business for the long-term.”


David Walentas

Industry insiders say it makes sense that Silverstein is staying on as co-CEO, given how recently Burger joined the company. It allows him to hand off long-term relationships with equity partners, collaborators and bankers. Silverstein’s name “opens a lot of doors,” said Burger. At the same time, most lenders, noted Blau, “require that people have teams that back them up.

“I’m sure Silverstein has been asked by them, ‘What if?’” Blau said.

Silverstein promised Burger when he hired him that he would elevate him to the top slot within two years if it was a good fit.

“I started as executive vice president and took Larry at his word that if it worked for them, and worked for us, I would become CEO,” Burger said. As the end of the two years approached, the duo decided that “it was working, but Larry said, ‘I’m not ready to retire,’ and I said, ‘Good, I don’t want you to retire.’”

Steve Kenny, head of commercial real estate banking for New York and New Jersey at Bank of America, said both relationships and a deep bench are essential when he and his team are considering whether to issue loans to developers and investors.

“We tend to evaluate clients and client relationships as opposed to just transactions,” he said. “We’re always very focused on relationship building, and who we are going to do business with.”

But, Kenny added, “one of the other key elements that we look at is the management team, or management depth, not just the most senior person. Is there depth in organization such that they can carry out all of the aggregate business plan?

“Depth and continuity are things we always evaluate.”