JOSHUA KAHR

Related Companies—and the Challenges of Developing $22 Billion in Assets Worldwide

Jeff T. Blau, CEO of Related Companies, talks about managing a firm through transformative projects such as Hudson Yards and Time Warner Center in New York City—and about the challenges of working globally.

Jeff T. Blau is chief executive officer and a general partner of Related Companies, headquartered in New York City, and a ULI trustee. Related was founded in 1972 by current chairman Stephen M. Ross, and today the company includes more than 2,500 professionals. Related has developed over $22 billion in real estate and owns assets valued at more than $15 billion made up of mixed-use, residential, retail, office, trade show, and affordable housing properties in major cities around the world. For the past 23 years, Blau has been responsible for directing and overseeing new developments for Related worth in excess of $20 billion, in virtually every property sector. Recently, he was named to Crain's New York's *New Influentials list of 25 leaders reshaping New York.*

What career path led you to becoming CEO of the Related Companies?

I began my career at Related 24 years ago, joining the firm right out of college. I attended the University of Michigan [for] undergrad and went to Wharton for business school. One of my professors introduced me to Stephen Ross when I was a sophomore at Michigan. He had just made a significant donation to the school, and I was attempting to develop some student housing as an undergrad. We hit it off right away, and Stephen offered me a summer internship and then a full-time job. The recession hit and I attended business school while working at Related. I spent the early parts of the week at Wharton and the later parts and weekends at Related. Since 1992, I have been at the company full time and I have been a part of the company's significant growth.

How big was the company when you started?

It was around 80 people when I started, but the focus was a bit different. Stephen started the company with a focus on affordable housing, which is still a big part of the business that we do today, but it was a much bigger part of the business, percentage wise, back then. Yet, I would say that our affordable housing business remains critically important to everything we do from our view and philosophy. We do spend a lot of time on it, and it has grown to be a large part of our business.

So, your first meeting with Stephen was critical in your career path.

Yes. When I came to the company, I started working side by side with him. He has been a great mentor and a real visionary in the industry. To be able to start that young with someone like that has been a terrific experience.

Stephen is now the chairman of Related and is still involved as much as ever, but more recently he has recognized how large the company has gotten and made some management changes to continue the evolution of our company for the next 20-plus years. When you raise the amount of capital we do, the questions of succession and continuity inevitably come up. For him, being able to plan for succession—and, more important, to train and grow people from within—is one of his proudest accomplishments.

Along the years, we did everything from affordable housing to mixed-income or 80 percent market-rate/20 percent affordable housing to for-sale luxury residential. We have developed hotels, office buildings, and large-format retail centers. We have also made a real push into mixed-use development, and that is what we are most known for today.

City Place in West Palm Beach was one of our early mixed-use developments, and that project won a ULI award. Time Warner Center, also a ULI award winner, was really transformative for our company and the neighborhood. If I think back to the period of time in the mid-1990s, we took some pretty large incremental steps from building 80/20 housing projects, with probably the largest development being a $100 million to $120 million development to the headquarters for Random

House in Manhattan with condos on top. That was a $450 million deal—about three times our largest deal prior to that. While we were doing that, we competed for the Columbus Circle/Coliseum deal in New York, which is roughly $2 billion and 2.8 million square feet [260,000 sq m]. We took some pretty large jumps. If you think back to that time, were we qualified to do Time Warner Center? Probably not, but I don't think anybody was really qualified. It was truly unique and was one of the largest, most complicated developments done at the time. It was also the largest private construction loan ever done in this country.

Did going from one size of a project to another cause any growing pains at the company?

We always have growing pains. We are in a cyclical business, so you have to manage the cycle as well. We just went through three to four of the most difficult years since I started in the early 1990s. The 1990-era recession was my first experience. What I learned back then was very helpful for going through it again over the last couple of years.

If I think back [to] 20 years ago, I remember the days where we would sit around the table with Stephen and three or four other people and go over every minute part of the deal at 10 o'clock, [at night], with food around the table, and at the end of the meeting we would make a decision and have it implemented the next day. We have tried hard to keep that very quick, nimble entrepreneurial way of doing business. How do you manage to keep that as your company grows from 80 people to 2,500 people and from one city to around the globe? How do you continue to make those entrepreneurial, quick yet smart, and educated decisions as well as become a global institutional development company? That has been the biggest challenge.

We spend an enormous amount of time on people. It is very much about creating a culture and a work environment that works; training and teaching people and making them part of the process; delegating responsibility because there is no possible way that you can manage what we are doing in the corner suite.

What traits are you looking for when choosing a team member?

We are not good at senior hires because they typically come in with their own culture and traits. I say that with the exception of technical people, because that is where you do need gray hairs. Construction, design, and architecture—there you have to bring in skills. The development staff, we like to grow in house. Almost all of our people, across the board, city to city, who make decisions, we did not hire yesterday; we hired them ten years ago. They went through three, four, five deals under some real guidance and now are making decisions.

Everyone always says development is a local business. If you are doing development in multiple cities through multiple offices, how do you maintain a core across the offices?

It definitely is a local business. There is no way around it. I would say it is one of the more difficult challenges we have. What we try to do is make sure that at least one of the people I just described becomes responsible for those offices. He or she either directly oversees the office or is there enough to make sure the Related way and vision are being implemented. That gets complemented by a local team, because you cannot run those offices without them. You can't run Chicago, L.A., and Abu Dhabi from New York. That doesn't work. You have to be able to get good, qualified people in place. I would say smart, young, and hungry are much more important to us than 20 years of development experience at XYZ competitive development firm.

You are still involved in the development process, but you are also managing a lot of people. Where did you learn how to manage?

You learn it as you go. First of all, we all love the development process. We try not to get too far from it because that would not be as much fun anymore. I spend half my time developing people, which includes trying to cultivate new and future stars and overseeing people in other offices. I spend the other half doing what I love doing—development deals.

We were in a financial crisis. How do we know when crisis is over? What tells you that crisis has crossed a line?

Look, you start to feel it. I do not believe that we are in recovery across the country, but in New York, the economy is a little stronger, people have jobs, and there is a sense that things are better than they were. The challenge is predicting when things have hit bottom and predicting when the recovery will occur. The hardest thing to do is to figure out when things are bad, when they are going to get good, and when things are good, when they are going to get bad. You have to spend time on that analysis, keep your eyes open, your ears to the ground, and work hard at figuring it out.

We do not necessarily consider ourselves investors in macro trends. We are a development company first and foremost. We have a fund management business, but even in that business everything we do is about creating value at the asset level. We operate in a micro environment. We do not invest because we think things are getting better or that we are buying at market to sell at two times market later. We create value through the development process. We buy land. We add development. We are already in at a basis that is less than market today. We invest through our funds because maybe there are distressed opportunities and our basis is good. And we get those deals because we have a certain set of skills that others don't in the development process, and we create value that way.

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The same goes for development. Even with Hudson Yards, which is underway on the west side, it is the largest development in the country. It is 15 million square feet [1.4 million sq m] of every asset class: office, retail, residential, schools, cultural facilities, parks. But if you really sit down and analyze what is happening on that deal, we are leasing and selling office space. Our first phase includes 4 million square feet [372,000 sq m] of office space.

Just about everyone we are talking to tenant-wise is a result of a micro opportunity. Even in not-the-best of times, leases expire; people have to make real estate decisions. If you were to look at the profile of every one of our tenants, it is XYZ big company and they are in three to four different spots throughout the city, and as leases are expiring they say, "I can consolidate all to one place. I can take 70 to 80 percent of the square footage I had before. I can have a brand-new efficient building, green technologies, whatever it is. Maybe I pay a little bit more per square foot, but my total occupancy cost will probably come down."

I view that as a micro opportunity. We were able to tie up land at a good price and at a good basis. We were able to hang onto it through a cycle and now lease it. Our success is not necessarily because the New York office market is getting better, but because we created a good product in this environment.

What is your vision for the firm over the next three to ten years? And, as the company moves forward into the recovery, what types of projects do you want to be doing?

Three years I could probably outline to a T. It is our view to become the best development company in the world. In order to do that, you need to be in the large urban markets, and you need to be developing large, impactful, city-changing developments. That is really where our focus is. We will always have a bias toward New York, because we are here. It is also a marquee stage for the rest of the world. So, doing what we do here helps everything else.

When we finished this development [Time Warner Center], we got calls from around the world saying, "Come build us a Time Warner Center in Shanghai" or wherever it was. But as I said, this project was really transformative for our company. It took us to the next level, and the awareness of our company was heightened. Hudson Yards will do that times five. What we see coming out of Hudson Yards is more of those calls and opportunities.

I think in the U.S., we are in the cities that we are in on purpose, not by accident. We think those are the growth cities. Our core has always been vertical, urban high rise. We are not going to deviate from that. We are not going to do garden apartments in Kansas. There's nothing wrong with Kansas, but that is not what we do. So, if you look at vertical urban markets, there are not that many. You have New York, Chicago, L.A., San Francisco, Boston, and Washington. Of those cities, the only one that we are not in is Washington. So, expansion-wise in the U.S., that is the only city that we probably should be in that we are not.

And globally?

Globally, we are in Shanghai, São Paulo, and Abu Dhabi. So, we cover China, the Middle East, and Brazil. China has been very difficult for us. We have not had the success we would have liked there.

Why? Is it cultural? Regulatory issues? The economy?

Yes. Yes. It is a very difficult environment for foreigners, not as welcoming—and I will not say "as you would expect," because you almost expect it to not be welcoming. But that is more difficult to overcome than we would have thought.

Is it more difficult than, say, São Paulo?

São Paulo is a fully capitalist society. If you are good and have capital, they welcome you. That is definitely not the case in China.

And Abu Dhabi?

Abu Dhabi is more opportunistic, and it is not just Abu Dhabi. For us, the focus is really the Middle East, but based in Abu Dhabi. We brought a group of investors into our company in 2007, which includes some sovereign funds.

Mubadala is a sovereign wealth fund of Abu Dhabi, and they are an investor in our company. They had some pretty large-scale projects going on in the Middle East, and they invited us to become their partner in a large retail development. We recently bought an adjacent parcel for retail, hotel, and residential development.

In Abu Dhabi, where we had the right partner and the right environment, we are developing what will be almost 2 million square feet [186,000 sq m] of retail, residential, and hotel uses in the middle of where they are building the Rosewood, the Four Seasons, other residential uses, the Abu Dhabi stock exchange, and four office towers. This is a huge development, centrally located to everything. This will become the largest retail center in Abu Dhabi.

That is an opportunity that we were able to jump on, and we have a great partnership there with a private equity firm called Gulf Capital. We formed a company called Gulf Related. Through that, we now have a venture in Saudi Arabia as well, where we are doing housing mainly for expats. It is very opportunistic, deal by deal.

Is there anything else that you want to touch upon?

Along the way, we got into all these asset classes, but we also executed some opportunistic corporate transactions. We bought Equinox, which is one of the most successful health clubs across the country. Very similar markets and

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very similar demographics to what we do on the real estate side. We spend a lot of time growing that business. It is very dependent on real estate for growth, and this collaboration has really worked out well.

We also bought Virgin Megastores back when there were still records to be sold. We bought it because they had great real estate. We shut down the business and wound up with a lot of great real estate. That was more of a corporate real estate play, but we operated the record stores for three to four years.

We recently formed a joint venture with Danny Meyer's Union Square Events, which will provide restaurant and catering in our large-scale developments and will be part of what we do at Hudson Yards. Stephen also bought the Miami Dolphins, which is a big venture in and of itself, and that has also raised our profile around the country. **UL**

JOSHUA KAHR is principal of Kahr Real Estate Services, based in New York City. An unedited podcast of the entire interview can be found at www.uli.org/capitalmarkets.