

Zell's gender remarks arrive in a changing REIT environment

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By Jake Mooney

Sam Zell's crude remark about the hiring and promotion of female employees comes as the predominantly white, male real estate investment trust industry is gradually shifting to include more women in high-level roles.

Nareit, the industry's trade group, apologized to its members after Zell used an obscenity during a panel appearance in referring to women who apply for jobs and promotions in his organizations. The iconoclastic real estate magnate, 76, is a frequent speaker at industry events, and often uses profanity in his appearances, at times with sexual overtones. He has not faced major public backlash within the real estate industry until the most recent episode.

Nareit's apology, in which the organization's leaders said his phrasing demeaned women and was inconsistent with the group's values, came about five days after the remarks, and followed complaints from executives and board members at several REITs.

Zell was arguing in his remarks that he promotes executives based on ability rather than gender, in contrast with an approach in which companies might aim merely to "get more p**** on the block," in his words. His defenders note that Equity LifeStyle Properties Inc., of which Zell is chairman, has a female CEO, Marguerite Nader, and point out that Debra Cafaro, one of the most prominent REIT CEOs of any gender, at Ventas Inc., has called Zell a mentor.

"I have been in a Sam Zell-led organization for 25 years and am both an example of and a witness to how Sam hires based on talent and drive, and promotes based on merit," Nader, who is also the company's president and a board member, said in a statement. A Ventas representative did not reply to an email requesting comment.



Sam Zell in August 2013 on Fox Business Network.

Source: AP Photo/Richard Drew

The episode takes place at a time when movements like "Time's Up" and #metoo have brought discussion of workplace gender dynamics into the spotlight. It also takes place as environmental, social and governance issues, including gender equality, are increasingly gaining investor attention. In the REIT space, there are signs that the gender balance is gradually changing. Female representation on REIT boards lags the S&P 500 — with women holding 15.5% of board seats, compared to 22% in the broader index — but has increased from just 8.5% a decade earlier, according to a Wells Fargo analysis published in March.

According to Ferguson Partners, a consulting firm that works on executive staffing and compensation, 36% of REIT directors hired in 2017 were women, compared to 24% in 2015.

"I have to imagine, in 2018, that is just going to shoot up," Jeremy Banoff, a senior managing director at FPL Associates, Ferguson's sister company, said in an interview before the Nareit conference. A Ferguson representative declined to comment on Zell's remarks.

A colorful history

Zell, an influential investor through his firm, Equity Group Investments Inc., is also chairman of three publicly traded REITs — Equity Residential, Equity LifeStyle and Equity Commonwealth — and two energy companies, Anixter International Inc. and Covanta Holding Corp.

He sold another of his companies, Equity Office Properties, to Blackstone Group LP in 2007 for \$36 billion, in one of the era's largest and most chronicled real estate transactions, and acquired the Tribune Co., a media conglomerate, in a 2008 leveraged buyout, taking the company into bankruptcy before exiting the investment.

At the time of his comments, Zell's picture was on the cover of *Nareit's* magazine with the tagline, "Not so subtle." Though he is widely respected within the REIT industry for his investing acumen and market timing, he has drawn criticism in some past roles.

The New York Times reported in 2010 that then-present and former Tribune Co. employees said Zell presided over an environment in which senior company leaders, including CEO Randy Michaels, handpicked by Zell, engaged in "sexual innuendo, poisonous workplace banter and profane invective." Tribune Co. said in the article that it supported Michaels, who denied an allegation that he offered a waitress money to disrobe during a business gathering. Several weeks after the article ran, however, Michaels resigned, reportedly after Zell personally urged him to step down.

Jennifer Clark, general counsel and a board member at the asset manager RMR Group Inc. — and a member of the board of Senior Housing Properties Trust, which RMR manages — has been a vocal critic of Nareit's response to Zell's latest remarks. Before Nareit published its apology, she sent a letter to the organization, calling out its lack of substantive action. RMR President and CEO Adam Portnoy said in a separate letter to employees that the firm "strongly condemns and vociferously denounces both the language used, and more importantly, the toxic culture that language characterizes."

"I think it discourages people," Clark said in an interview. "Women graduating from business school or women who could bring so much, coming up in the ranks, or women who are eligible to serve on boards, I think when they hear remarks like that are tolerated in an industry, they're going to be put off. They're definitely going to feel like they're going to be discounted."

Zell and RMR have a history: He was involved in the hostile takeover of an RMR-managed company, CommonWealth REIT, by a group that charged RMR with mismanagement. Clark said her firm is less concerned with Zell personally than with what she called a lackluster response from Nareit, which she called "the self-proclaimed voice of the real estate industry."

New perspectives

In an interview before the conference, Radhika Papandreou, a managing director at Ferguson Partners who recruits REIT board members, said real estate companies traditionally filled board seats with people from the real estate industry. Increasingly, however, real estate companies are considering candidates with different professional backgrounds.

"They're saying, 'Actually, we do need diversity of thought,'" she said, noting that REITs recently have recruited board members with experience in technology and consumer products, among other fields.

"Because the net has widened, more women fall within those worlds, historically, in terms of actual executives, so we're able to source really strong candidates that happen to be female," Papandreou said. "So it's really being led by the diversity of skill set, which opens up the flood gates around gender."

Emily Nagle Green, who joined the board of Investors Real Estate Trust in February after a decades-long career in the technology industry, said in an interview that she was excited to attend her first REITWeek conference, at which Zell made his remarks. Executives at the company specifically recommended Zell's talk to her beforehand, and appeared horrified and embarrassed on her behalf, she said.

"When I came up in the tech world, I was the only woman most of the time, in any job, in any team, in any role," Green, 60, said. "I've been around men in a male working environment all of my life. ... I am not unfamiliar with men who act like boors."

Green, who is one of three women on the company's board, said that beyond Zell's word choice, she considers the gender-blind approach he advocated to be inadequate because it puts the burden on women to make their way through a male-dominated industry with little support.

Green said she told Nareit President and CEO Steven Wechsler — after he failed to mention Zell's remarks at Nareit's "Dividends Through Diversity" reception, later the same day — that he had missed an opportunity to take a stand on behalf of the organization's values.

"There was a woman standing at his side, who was interrupting me, trying to explain that I just didn't know that real estate people have potty mouths," she said. "I'm not a wilting lily that will shrink if bad language is used. It's not the point. The point is, it's that kind of attitude and behavior that have gotten us where we are, which is that we haven't fully activated the talents in the sector to build the businesses we want to build."

She added: "Seeing that we still have people talking and thinking about women as anatomical attributes, rather than anything else, really shows how passive our efforts around diversity have been so far."

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