1 Deals

The art of the deal is more important than the technical notion of the deal.

—Julien Studley

It's all but automatic for us to assume that landmark urban real estate projects are hatched in the minds of architects, city planners, developers, and ambitious mayors. Yet, as this account of a firm called Studley, founded by Julien J. Studley shows, certain urban landmarks are first a gleam in the mind of a commercial real estate broker. But a gleam is not enough. Without the broker's ability to do the deal that clears the way, the great project may never be built.

When the project is completed, it will be the architects, city planners, developers, and mayors who will take their bows and get the press. The broker, who started it all, most likely will go unnoticed—athough her or his anonymity may be handsomely compensated.

Big Deal in Manhattan

Consider a pair of Studley brokers who, one Saturday morning in September 1968, emerged from a cab at the southeast corner of East 54th Street and Lexington Avenue in midtown Manhattan. On that corner was 60-year-old St. Peter's Lutheran Church. In its prime, when the area was still residential, St. Peter's boasted a congregation over a thousand strong. That number had dwindled to 300. Amid a sea of lively commerce, the old stone church looked a bit adrift.

The two brokers stood long in front of St. Peter's. Then, pausing frequently to take notes, they traversed all four sides of the block between 53rd and 54th Streets, and Lexington and Third Avenues. Here was a dense and diverse urban world in a rectangle. You could dine at leisure in a classic French restaurant, or grab a deli sandwich or a slice of pizza. You could linger over a beer at either of two old-fashioned bars on the block, have a prescription filled, buy a chic dress, or pick up your hometown newspaper at a news agent whose stock ranged from the *Cleveland Plain Dealer* to *Die Zeit*. One of the largest buildings on the block was the dowdy Medical Chambers building on 54th street. Although most residential uses had been pushed off the block long since, a handful of old-timers still lived in townhouses along 53rd and 54th Streets.

Not a soul on the block knew it, but a countdown had started that morning with the arrival of the two brokers. In five years' time, every building but one—31 in all—would be demolished. In their place would rise Citicorp Center, the silvery, 70-story office tower whose slant-sided apex would take its place with the Empire State and Chrysler buildings and—until that perfect blue morning on which they were cut down—the World Trade Center's twin towers as the most assertive markers of the Manhattan skyline. St. Peter's Church, alone among the buildings fated to be demolished, would be reborn as a cornerstone of the Citicorp complex, standing once again on its familiar corner. This time around, with its starkly modern design, the church would give a feeling of being anchored rather than adrift.

Thousands of workers would spend two years erecting Citicorp Center (later renamed Citigroup Center, a name that has not displaced the original name any more than Avenue of the Americas has replaced Sixth Avenue). Yet it took only those two Studley brokers to assemble the block—an undertaking every bit as intricate and as time-consuming as creating the mighty skyscraper. And while construction was a highly visible process, the assemblage had to be conducted in strictest secrecy in order not to be stymied by "holdouts." Alert eyes on the block would have seen no change, but alert minds must have formed their suspicions as properties and leases steadily were bought up. But nobody, apparently, guessed the identity of the real purchaser, even though the rear of Citibank's headquarters (it was then called First National City Bank), stood directly across Lexington Avenue from St. Peter's Church. (The bank fronted on Park Ave.)

At the time of the assemblage, the bank had more than 40,000 employees worldwide. Fewer than a dozen were privy to the secret undertaking. Even fewer knew the identity of Donald Schnabel and Charles MacArthur, the two Studley brokers assigned to carry it out. Except among hardcore real estate types, the name of their firm also would have drawn a blank.

Site of Sites

Shift the scene now to a very different sort of urban parcel, a half block across from the Mall in Washington, D.C. It abuts the Canadian Embassy at Pennsylvania Avenue and Sixth Street NW. Since 1961, the site had belonged to the District of Columbia's Department of Employment Services (DES), housed in a bland and scruffy five-story building. Frankly, given its placement directly across from the National Gallery of Art and one block from the National Archives, this site deserved a more fitting neighbor than a shoddily housed employment and retraining agency. Besides, the address was inconvenient for the agency's clientele, most of whom commuted from poor sections of the city. People who could afford to live near the Mall were not likely to enlist in the job training programs offered by the DES.

The potential of the property was there for creative minds to see. No other comparable location between the Capitol and the White House was available for new development. But change would not come easily, even if the DES building could be razed and its functions transferred elsewhere. Normally, the first step toward a new use of the site would be for the city to issue a request for proposals (RFP) to develop the site.

Any RFP was sure to be a long and creaky affair, the more so for such a prized site, and the D.C. government had a reputation for grinding its bureaucratic gears at low speed. Yet, starting in the spring of 2000, a Studley broker named Lois Zambo was able to shift the city into high gear on behalf of a determined and cash-heavy client, the Freedom Forum. A nonprofit offshoot of the Gannett newspaper chain, the Freedom Forum had spawned the Newseum, a museum dedicated to the media and the First Amendment, at that time hidden away amid a warren of faceless office towers in Rosslyn, Virginia, just across the Potomac River from Washington.

After four start-up years in Rosslyn, and with its lease soon to expire, Freedom Forum was eager to move this increasingly popular attraction to a more central site in Washington on the tourist trail. Ambitious as they were, Freedom Forum executives did not dream of relocating to the Mall until Zambo brought them to see the DES building and suggested that it be replaced by the Newseum.

Securing the site for the Newseum, Zambo warned, would be a torturous process. First, the city would have to be induced to relocate the DES. Then, once an RFP was issued, Freedom Forum would have to fight it out with other potential developers of the site. The winning proposal would require approval of the mayor, city council, local and federal agencies, and community activists. The process could take years, and even then it could fail.

"We don't want to go through an RFP," Charles Overby, president of the Freedom Forum, told Zambo. "But we do want the site." And Overby wanted swift action, so that the deal could be closed by the time the Newseum's current lease expired.

To a less resourceful and determined broker, Overby's wish might have seemed like a pipe dream. But Zambo proposed a battle plan whose objective was to swiftly secure the site for the Newseum by bypassing the requirement for an RFP. Her strategy called for overpaying by double the site's assessed value of $50 million: a cool $100 million cash. Twenty-five million dollars of that sum would be reserved for new, much needed low-income housing elsewhere in the city. But the offer was good only if the city agreed to sign the deal with unprecedented speed.

Acting rather than reacting, Zambo determined who had to be won over—and how—in the march toward her client's objective. Where she could not jawbone, she launched preemptive strikes to neutralize opposition. In the end, there was none. In October 2000, six months after Newseum executives first saw the site, the D.C. city council voted to sell it to the Freedom Forum without ever calling for an RFP.

Goodbye DES, hello Newseum.

Big Bucks, Less Respect

Commercial real estate brokerage is thought to lack glamour. Ambitious young people interested in business may aspire to be lawyers, investment bankers, accountants, consultants, or entrepreneurs. Being a space broker is rarely their ambition—although they might reconsider if they knew the megabucks that a good year can bring in. Of around 250 brokers at Studley in 2000 (admittedly a great year), 27 made more than $1 million. Even in the lean year of 2002, 10 brokers at the firm surpassed that mark. Rather than exercising stock options to make a bundle, these brokers earned their seven figures the old-fashioned way. Finding a fit between tenants and landlords, they closed the deals.

The common perception is that brokerage is a calling strictly for plodders who spend their days trudging between office buildings in the hope of finding tenants willing to move. Every broker has done that. Yet, as the Citicorp and Newseum deals show, mere trudging, no matter how determined, won't get you to the goal. Brokers need to grasp a vision and let nothing shake them loose from it if they are to be at the genesis of landmark projects. Had not Studley brokers pointed their clients to a path not yet seen, it is likely that neither the Citicorp headquarters nor the Newseum would be at their current locations.

It wasn't enough for the brokers to point the way. They also had to clear the way—a process that was as secretive in the case of the Citicorp assemblage as it was public in gaining the Newseum site. Money alone was not enough to get either deal done, any more than weapons alone suffice to win a war.

These two giant deals did not spring out of a neutral corporate environment. They were nourished by the offbeat but empowering culture of Studley and its founder. The new management team led by Mitch Steir is composed entirely of Studley brokers who are the kind of imaginative dealmakers that have always defined this firm. Their accession came in the aftermath of 9/11 and the popping of the dot-com balloon. It was an uncertain time in the world of commercial real estate. That's a good time for inventive and determined brokers.

Studley had a few dozen employees and two branch offices when the Citicorp assemblage was completed in 1974. As Freedom Forum took title to the Newseum site in 2000, the firm had grown to over 400 employees in 15 offices nationwide. Revenues in that 26-year period rose from $11 million to $185 million. Despite the ups and downs of the real estate cycle, the firm even eked out a profit in 2001, a year when many real estate brokerages bled. In the weak market of 2003, its first year under Mitch Steir's leadership, the firm continued its profitable ways.

Studley has come a long way from its modest birth in Julien's walk-up apartment in 1954. Yet, despite steady growth nationally, the firm never made "boosting the numbers" its top priority. Although other brokerages expanded through acquisitions, took on debt, went public, or got themselves bought (as market leader Cushman & Wakefield did by the Rockefeller Group, which was itself bought by Mitsubishi), Studley resisted all such moves. It stayed focused on creative deal making and kept its growth entirely internal, and self-financed even as it expanded nationally.

In this era when much corporate rot and greed have been detected, most scandalously at Enron, WorldCom, Tyco, and Parmalat, Studley's conservative bent, easy to scorn in go-go years, now gets respect. With the firm's stock held solely by employee retirement plans and by individual employees, shares awarded via stock options cannot be dumped on the public. They can only be sold back to the firm. When employees do sell back stock, they have always profited.

Studley's book value has increased steadily over the years, reflecting the firm's real growth. The stock has risen accordingly and has avoided the price plunges endemic to the stock market. Under Julien, the firm remained debt free. "If I'd gone to business school," says Julien with a laugh, "by now I'd either have a much larger company or I'd be bankrupt!"

Deal Hunting

Apart from a relatively compact headquarters cadre and salaried administrative workers in the branch offices, almost everyone at Studley is a commission broker, constantly seeking the scent of the next deal. "I come, I see, I smell," is how a mid-level broker describes his daily prowls through

Manhattan office towers. "If the elevator door opens on a floor that's vacant or under construction, then I investigate. Maybe the space is in play. Maybe a tenant needs my services." Most, but not all, brokers, leave the walking to younger brokers if they become successful. Richard Marek, 35 years at Studley before starting his own firm in 2003, specialized in big space deals for major law firms and investment banks, notably Lazard Frères. Yet the slender, perpetually tanned Marek was rarely at his desk, preferring to prowl the office turf of Manhattan.

Cold calling to lists of companies, like telemarketing, is rarely fruitful. But if handled artfully, it can pay off big. John Conerty, a broker in Studley's Chicago office, showed the right technique, a few years after joining Studley in 1993, in a cold call to the real estate director of Sears, Roebuck and Company. "I asked him if we could set up a meeting to discuss ideas about how to reduce the cost of his office space," says Conerty, "and he just kind of laughed."

Sears' real estate director explained to Conerty that under him was a staff of over 100 people. "They are all focused on reducing costs," he said. "What could you possibly do that they aren't already doing?"

"What percentage of your staff is dedicated to handling office space?" asked Conerty.

The director hesitated before admitting that he wasn't able to answer that question. Neither was he able to tell Conerty how many square feet of office space Sears was using.

"Would it be safe to assume that you have around 2 million square feet of office space nationwide?" asked Conerty.

"About that."

"And would you estimate that your you're paying an average of $20 per square foot for space?"

"That's a safe assumption."

"So that equates to spending $40 million annually on office space. What if I could save you $10 million of that? How would your department look if you could show them that?"

Conerty remembers a long pause. "Then he asked me how soon we could set up a meeting. His problem was that all the 100 or more people in the department were retail experts. He could have trained them to deal with office space, but it made more sense to outsource to us since we were already experienced. Once we got the assignment, we analyzed all of Sears leases and highlighted those that were higher than the prevailing market. We either restructured those leases or relocated offices to less expensive properties. On one project alone, we saved them $10 million. In all, it grew to about $30 million over seven years—more than we had promised them."

And all from a cold call. For anyone contacted by Conerty who happens to be a football fan, however, it needn't be totally cold. Conerty was a star running back of a championship team at the University if Miami in Ohio and is always ready to talk football.

Nothing even the best brokers did before coming to the firm gives them a leg up on what they must do here: Fashion the deal, fight for it, and seal it. Unlike a salesperson hawking televisions, a broker doesn't offer a defined product ready to be unboxed. The client may be clueless as to what product will best serve his or her needs until the broker sketches out the contours of a new idea. In the mid-1990s, for example, Don Schnabel broached a startling concept to the management of Nasdaq, the over-the-counter securities exchange. Unlike the New York Stock Exchange, Nasdaq was a faceless entity that had made no serious effort to beckon the public. Why not take itself out of the shadows, Schnabel thought, by creating a high profile corporate center and an enormous electronic sign on the west façade of 4 Times Square, an eco-friendly office tower being constructed by Douglas Durst at earth's highest-profile urban crossroads?

The Nasdaq real estate officer that Schnabel had long dealt with was cold to the idea. The third time he called her, "she went kind of bonkers on me." Schnabel asked for permission to try out his idea on somebody in Nasdaq's marketing department. "You can do that," she said, "but you have to tell him that I disagree."

After viewing a multi-media presentation of 4 Times Square, the marketing man was convinced. "He asked me to give him the ball and he would run with it," says Schnabel. "Other people at Nasdaq had to be gotten on the team. Three weeks later, he called me to asked if I would hold the space for him."

Schnabel was disconcerted. A shopper might ask for a dress to be held for future purchase. But ask a landlord to put a hold on a mighty space at 4 Times Square? "I knew and trusted Doug Durst," says Schnabel. "So I told him I was in an awkward position. I asked him to negotiate with me as if he had to compete with three alternate locations that my tenant could go to. Naturally, Doug wanted to know who the tenant was. I promised to tell him at the end of the conversation. But only after he assured me that, honest Injun, this was his best deal. We each kept our promise."

Nasdaq's seven-story MarketSite at 4 Times Square is dominated by the always-in-motion, wraparound sign flashing market quotes and news. Built at a cost of $37 million, it is the largest LED sign in the world. It is a frequent flasher on television news shows and has its annual mega-moment on the countdown to New Year's Eve when the ball drops. If not for Schnabel's concept and determination to see it up in lights, the sign on the Broadway corner of 4 Times Square might be featuring vast images of torsos swathed in Calvin Klein underwear.

Not that every deal is exciting. Day in and day out, humdrum transactions—and plenty of plodding—get done at Studley, as they must. But the firm also cultivated in its ranks free and fluid thought, which when the right hour came, shaped itself into something exciting and profitable. Just as startling as Schnabel's idea for Nasdaq, for example, was Julien's proposal of a new home to Cravath, Swaine & Moore.

Since 1961, the prestigious law firm had been anchored at 1 Chase Manhattan Plaza in Lower Manhattan. A quarter century later, Cravath was ready to move to midtown. Conventional wisdom would have placed the firm in a superior building on Park or Fifth Avenues, or a few steps away. Julien had a quite different notion. The site that he had in mind was Worldwide Plaza, a 50-story tower under construction in the late 1980s at 825 Eighth Avenue at 50th Street. With its pyramidal, copper-clad roof—homage to Cass Gilbert's New

York Life Insurance Building on Madison Avenue at 26th Street—the building was first class in every way. But the neighborhood was not. Infested with porn theaters and rampantly seedy, it seemed like the last place such a law firm would want to go.

In fact, there were benefits to Cravath at Worldwide Plaza, including attractive rent, custom-designed offices, and a separate entrance and elevators for the law firm. But what would blue-chip clients think of this "scarlet chip" address? "I told David Schwartz, Cravath's lead real estate attorney, that his law firm was among the few that could make that move," says Studley. "They had the immense prestige to validate the neighborhood." In 1990, Cravath went where lesser entities had feared to tread, taking the top 12 floors of Worldwide Plaza.

Schwartz made a curious request during the negotiations in 1988. "One of Cravath's clients was Salomon Brothers, a Wall Street's giant," says Julien. "David Schwartz asked if one of Salomon's people could sit in on the negotiation of the deal. I said, 'Excuse me, but will you tell me exactly what you mean?' He explained that Salomon's real estate department could benefit from learning how to do deals like this one. They were not a party to the transaction. It was not typical to do this. But the client had asked me for a favor, and since it couldn't harm anything, I was happy to oblige."

That small courtesy led to an enormous new deal for Studley within months. The client was none other than Salomon, which had outgrown its current home at One New York Plaza in Lower Manhattan, where it had created the largest private trading floor in the world in 1970. In a hugely publicized chapter in city planning gone awry, Salomon thought it had already nailed down a high-profile new home at Columbus Circle. There, Mortimer Zuckerman's Boston Properties planned to build a gigantic new office building on the site of the drab, unloved Coliseum, which had been superceded by the larger Javits Center. The land alone was to cost $455.1 million when the deal was announced in 1986. Salomon arranged the financing and was slated to be the building's anchor tenant.

"They were going to pay this insane price, rationalizing that somehow it made sense" says Julien. "They were thinking like Wall Streeters." The stock market tumble in October 1987, on top of intense civic opposition to an overscaled building that would have cast a huge afternoon shadow on Central Park, killed the deal. Salomon, whose downtown lease was soon to expire, once more was seeking a new home. "This time," says Julien, "they decided they were going to hire a *real* real estate firm."

Salomon was initially looking for about 850,000 square feet of office space. At Studley's first meeting with the company, held in a conference room adjacent to Salomon's trading floor, executives asked how long it would take to survey the market for available space.

"You're a very large gorilla," said Don Schnabel. "There are not a lot of cages in the city that you can fit into. You'll have your answer quickly."

The cage that Salomon selected was the brand new 7 World Trade Center, across a plaza north of the Twin Towers. Larry Silverstein had completed the 47-floor, 2-million-square-foot tower just as Wall Street was on the verge of a downturn. The anchor tenant he had counted on, Drexel Burnham Lambert Inc., backed out in the wake of Michael Milken's junk bond debacle, leaving the building almost entirely vacant. Studley now had come to the rescue with its "gorilla" in tow. But the negotiations went neither smoothly nor quickly. For one thing, Salomon wanted an equity share in the building in return for becoming the anchor tenant. Despite Julien's personal best effort, Silverstein refused to give up even a smidgen of ownership. John Gutfreund, the strong-willed chairman of Salomon, who once had both hired and fired one Michael Bloomberg, thought he could succeed where Julien had failed. He invited Silverstein to his office for a lunch at which he was determined to come away with a piece of 7 World Trade Center. Don Schnabel arrived at Salomon's office just as the lunch ended. He saw by the look on Gutfreund's face that Silverstein had stood fast. There was to be no equity deal.

A major worry of Silverstein, according to Schnabel was Salomon's right to sublet during the course its lease. Typically, landlords may not unreasonably withhold approval to sublet if the tenant no longer needs all its space. Silverstein was obsessed, in particular, with the possibility that if Salomon downsized, it might sublet to some unglamorous city agency that would bring down the tone of his building. So what if it paid the rent on time? "Larry refused to say that he would not unreasonably withhold permission to sublease," says Schnabel. "He said, 'What if Salomon goes to court and gets a judgment that I unreasonably withheld the right to sublet? Some guy in a black robe who makes $100,000 per year [a pittance to a big real estate player] could take my building away from me!'"

Studley custom-crafted an arbitration procedure to deal with Silverstein's obsession. Three arbitrators were picked. They were paid $5,000 per year with annual increases simply to be on call at short notice. If a subtenant proposed by Salomon were rejected by Silverstein, Salomon had four days to notify one of the arbitrators. Within 48 hours, the proceeding had to start. Salomon had just two days to present its case. Silverstein then had two days to present his side. At the end of the next day, the arbitrator's decision would be announced. Compared to most arbitrations, the speed demanded here was supersonic. If the ruling was that Silverstein had unreasonably withheld permission to sublet, he could still refuse the subtenant. Then Salomon could bring a lawsuit. "We told Larry that if that happened, he would already have two strikes against him," says Schnabel. "First, he had withheld permission to sublet. Then the arbitrator had ruled he had been unreasonable. So he'd have nobody to blame but himself if the man in the black robe who 'only' made $100,000 ruled against him."

The lease negotiations, lasting up to 15 hours at a stretch, continued seven days a week for three months. They were held at the office of Silverstein's attorney, Carb, Luria, Glassner, Cook & Kufeld. That firm was small, while Salomon's law firm, Wachtell, Lipton, Rosen & Katz, was among the biggest. "The lead lawyer for Salomon kept inserting changes by hand," says Julien, "and because his firm had an all-night operation, while Silverstein's didn't, those changes would show up the next morning proofread and woven into the lease. That overnight capability gave Salomon a huge advantage. Normally, it's the landlord's lawyer who keeps control of the lease."

The grueling negotiations took a personal toll on all parties at the table. Salomon's lead lawyer often slept over week nights at the Waldorf Astoria after delivering his changes to the night crew at his office, according to Schnabel. One Sunday morning, the normally prompt lawyer appeared several hours late for the daily meeting. "He explained that his young daughter had grabbed him by the leg and wouldn't let go as he was leaving the house," says Schnabel. "My own wife told me, 'Don, you don't seem to live here any more.'"

Finally, all the exhausted parties drew a line in the sand: Negotiations would wrap up on Thanksgiving Eve, 1988. And so they did. The signed lease with addenda was just over 1000 pages long, single-spaced. It covered details from as small as the "chemical-coated rag" to use on lobby metal work, and design details of the two flags Salomon was permitted to run up the poles on the plaza. The lease called for rent of $44 million per year for 1.1 million square feet, or more than $100,000 per *day*. Over its 20-year duration, the lease was valued at $1 billion. Acting as a consultant to the tenant rather than its broker, Studley was paid just over $2 million.

Even though the lease seemed to be precise, there were glitches. One year after it was signed, for example, Julien got a call from a top Salomon executive. He wasn't happy. The firm had received an annual real estate tax bill calling for $500,000 more than was scheduled by the lease. Had Studley screwed up? Julien sent Schnabel to investigate. The discrepancy was the direct result of Julien's dictum that as buildings get older, they get roomier. In the case of 7 World Trade Center, Silverstein had apparently allowed the building's advertised size to creep up. As owner of the land beneath the building, the Port Authority billed Salomon for taxes (actually PILOT, or payment in lieu of taxes). By Salomon's calculation, it had leased slightly under half of the building. By the Port Authority's reckoning, the firm was leasing slightly over half. When Julien brought the discrepancy to Silverstein's attention, he reduced Salomon's bill by $500,000. "I told Larry," says Julien, "that his mother would be proud of him. He loved his mother very much and often had her to lunch."

Salomon seemed confident of its future at 7 World Trade Center. So confident that, one morning during the negotiations, a Salomon executive informed Schnabel, "The boys on the trading floor had a great day yesterday. We'll take another 200,000 square feet." Just like that. In 1991, the year after Salomon moved 3,000 employees into 7 World Trade Center, the firm was caught in an illegal bidding scheme for Treasury securities. John Gutfreund resigned as chairman. The once proudly independent Salomon, first subsumed into Smith Barney in 1997 and then into Citigroup in 1998, is now just a cog in a vast financial machine.

Back when the lease at 7 World Trade Center was being hammered out, Salomon insisted on the right to install an emergency generating system with fuel tanks that could keep its trading floor running for days rather than hours in a blackout. Salomon's main fuel tanks were installed along with those of another tenant in the building, the mayor's Office of Emergency Management. Additional "day tanks" were installed on the specially reinforced fifth floor above the Consolidated Edison substation. The igniting of those tanks as the Twin Towers collapsed on the morning of September 11, 2001, sending flaming debris cascading down on surrounding buildings, may have also caused the conflagration at 7 World Trade Center. The building collapsed at 5:20 P.M. that afternoon, something no steel frame skyscraper of its type had ever done before that morning. And to think that Larry Silverstein's worst scenario was an undesirable subtenant!

Tweaking the Lease

Studley routinely seeks new space for its clients, as it did for Cravath and Salomon. Sometimes, it handles the situation differently, as when a team of brokers decided that the most creative way to deal with a big client's perceived need to move was to find ways to allow it to stay put. Time Inc. was such a client. In the mid-1990s, the publisher's stable of magazines was all but spilling out of its million square feet of space at the Time & Life building at 1271 Avenue of the Americas. Where to expand?

Next door, proposed Studley. A legal way was found for Time Inc. to sunder the west wall of its own premises and connect to the office building directly to its west on 50th Street. That building had been built for the American Management Association, which had long since departed. Now called the Sports Illustrated Building, it is connected to the "mother ship" through a handsome new multilevel glassfaced passageway. That solution proved to be as tricky for the architects as for Studley: due to an unforeseen pressure gradient between the two buildings on a windy day, the glass blew out.

Most deals don't approach the scale or inventiveness of those involving Citicorp, Newseum, Nasdaq, Cravath, Salomon, or Time Inc. But even the so-called average deal, in which a broker finds space for a client and negotiates a lease, is rarely simple. How much of the advertised space is usable? What givebacks will the landlord offer to "build out" the space to suit the tenant? What about subleasing and lease renewals? Options to expand or contract? Building management issues? Escalation clauses? Tax implications? Security? Telecom connections? Signage? How about "tech traps" that don't become evident until it's too late? Are there, for example, tinted windows that might contain metals that can compromise cell phone transmission?

Even a tenant's sense of whimsy can figure into a lease. During the era when the horizon seemed limitless for Internet start-ups, for example, a new company was looking for 20,000 square feet of space in San Francisco. But when a Studley broker located seemingly ideal space, the very young dot-commers rejected it. What they really wanted was a two-level space with vertical access via a firepole. They were only satisfied when the broker came up with a duplex pair of 10,000-square-foot floors. A firepole was duly installed between them. It may have been used for a quick exit when the bubble burst.

There was no whimsy in the predicament of a Milwaukee law firm whose lease in the city's largest office building was several years away from expiration. The partners preferred to renew the lease, but the landlord played tough. Confident that no other building in the city had enough available space to accommodate the law firm, this owner was unwilling to make a deal on any terms but his own.

Los Angeles-based Howard Sadowsky, the veteran broker representing the tenant, put the owner on notice that his client would move to a brand new building if meaningful concessions were not forthcoming. The owner was not impressed by that threat. He pointed out that the Milwaukee pipeline held no new buildings.

“My client will build its own new quarters,” responded Sadowsky. The owner didn’t believe that the law firm would “put on a hard hat” and play the role of developer. Then the game got serious.

The law firm, at Sadowsky’s suggestion, bought an option on a commercial plot site outside the central city. It hired an architect to draw up preliminary plans for a new office building. Sadowsky made sure these steps came to the notice of the owner, who realized he no longer could take it for granted that he had a captive tenant. The prospect loomed of entire empty floors in his building. Filling them would not be easy. Fruitful negotiations with the law firm now became the order of the day. A lease renewal deal was signed, including concessions previously rejected by the owner. “The cost to the tenant of purchasing an option on a site and hiring an architect was less than $100,000,” says Sadowsky. “The savings over the term of the lease were far greater than that.”

Just as one owner may hang tough, another may lean over backwards in negotiating with a potential tenant. Under-standing distinctions among owners enabled Joe Learner, a broker in Studley's Chicago office, to negotiate a below-market rent for a tenant in a tight market that was otherwise highly favorable to owners. The building was first-class. Learner even won the right for his tenant to put its logo in the lobby at no extra cost. Why was the owner such a softie? Because it was a REIT (real estate investment trust), explains Learner. Unlike a private owner, the REIT must answer to its shareholders. This particular REIT was anxious to show, before the end of its fiscal year, that the office space in question was producing income and that the rent was secure for years to come. Making a deal on the tenant's terms, in this instance, was better than no deal at all so long as it was signed before the REIT's fiscal year ran out. Private landlords can be as stubborn as they please.

On occasion, Studley's defense of the tenant means proposing the equivalent of transgender surgery: converting the tenant into an owner. This operation could make sense, according to Arthur Greenberg of the Washington office, "when the tenant has a lower cost of capital than the owner of its building does." And especially when the building has been over-leveraged with debt which could result in eventual default—a predicament which can used as a lever for the tenant. Greenberg determined in 1997, for example, that the owner of Marriot International's headquarters building in Bethesda, Maryland, was over-leveraged and headed for default on its $190 million mortgage note. Marriot International's lease was to expire just as the mortgage matured. If the tenant moved out, that would be catastrophic for owner and lender.

Greenberg wanted a restructured lease for his client. At first, the lender and owner refused. One week before Marriot committed to new build-to-suit quarters, the lender and owner “sharpened their pencils” and agreed to a buyback of the existing mortgage note at a discount. Marriot then signed a new 23 year bondable lease, meaning that it would pay “come hell or high water.” With that lease in place, the owner was able to place a new, less onerous loan on the 775,000 square feet building.

“Any kid will find the transaction when a 50,000 square foot lease has just three years to run,” says Greenberg, who was an accountant before he was a broker. “One of our strengths at Studley is in seeing the deal that is not apparent. The deal we did for Marriot had not even been on their radar screen.”

Neither had ownership of its headquarters been on the radar screen of the American Association of Retired People, a tenant in a building in Washington, D.C. since 1991. In the mid-1990s Studley proposed to the AARP that would be better off as an owner, and not only because of its ability to borrow at a low rate. Research of public documents showed potential financial problems among five different owners of the AARP’s 559,000 square foot building. In 2000, the AARP bought its building for $204 million and now pays less for its headquarters as owner than it had as tenant.

A similar proposal was made to the Federal Reseve Board, which was renting an annex building in Washington. “The Fed’s cost of funds was basically the same as that of the U.S. Treasury,” says Greenberg. The only problem with purchasing the annex, the tenant pointed out, was that the FRB was forbidden by law from owning any building other than its headquarters. "We felt that it was wrong to let a stupid little law affect a good business deal," says Greenberg. The law was changed and the $67 million sale of the annex was completed in 2001.

Fighting for the Tenant

Studley's priorities and particular culture have been shaped by the controlling personality of the firm's founder. Although many real estate brokerages act as agent for the owner of a particular building, Studley declares itself to be on the side of the tenant. Here and there, the firm will cross sides if a particular opportunity arises, but on the whole, it has kept the faith with tenant interests.

There's a paradox here, since it's usually the landlord who pays the commission to the broker upon signing a deal. As the line goes in the Bob Dylan song, "You're gonna have to serve somebody." Robert W. Semenow's primer for brokers called *Questions and Answers About Real Estate*, ninth edition (Prentice-Hall Inc., Englewood Cliffs, N.J., 1978) states: "The interests of three persons are involved in a real estate transaction: the owner, the broker, and the purchaser, *with whom the broker negotiates in the interest of the owner* (italics mine).

How then can Studley or any other broker claim to serve the tenant if legally obligated to the owner, who also signs the commission check? Studley's answer is a contract with the tenant giving the firm the right to represent it in a lease negotiation. That allegiance will be made clear to the owner. The law and common practice recognize that a broker may be hired by the tenant and paid by the landlord. The argument is also made that, in any case, the owner pays the commission using the tenant's rent money. Track it back, and the tenant becomes the true payer.

Tenant orientation, set by Julien early on, is one of the firm's bases for success. Consider the situation in San Francisco. For the year beginning in the fourth quarter of 2000, rents in San Francisco sank from $71.57 to $32.81 per square foot. Clear-eyed brokers who sensed that market vector could have saved clients lots of money—more, probably, than brokers who represent owners and have no such incentive.

A broker not under an owner's thumb also has the freedom to scout for buildings in which a primary tenant may be willing to sublease space, even though it hesitates to put it on the market. This unlisted availability is called "shadow space." In 2003, Mitch Steir sensed that shadow space might be available at the Bertelsmann-owned office tower at 1540 Times Square. It was, and Steir quietly arranged to lease floors 18 through 23 to Pillsbury Winthrop LLP, a law firm which had long been in Lower Manhattan. Since the tenant giving up the space was a unit of Bertelsmann, Steir was able to negotiate a direct lease with the owner of the building for his client, including extension rights.

Strange Bedfellows

Even by the relaxed standards of brokerage, the criteria used by Studley to hire fledgling brokers can only be described as offbeat. No formal degree or even high school diploma is required to be a real estate salesperson or broker. It's enough to take a 45-hour course and to pass a state-administered test. Ambitious candidates sometimes pass the exam before they take the course. Julien himself, a man of broad culture and an educational activist, never did find the time to finish high school, having gone directly to work as a 16-year-old immigrant. His firm has numbered among its brokers a former hearse driver, a jewelry designer, a plasma physicist, an art historian, a modern dancer, a finance commissioner of New York City, several former hippies, a tennis pro, and even a few Harvard MBAs. In this eclectic group, the one who did least well as a broker was the former finance commissioner, while the art historian and modern dancer both soared.

Job interviews at Studley must be to tuned to talent, which can require adjusting the dial to unlikely frequencies. Years ago, for example, a senior broker interviewed a young applicant. He was fresh from a job working on a giant uranium mining machine in Utah. He was also an accomplished potter. His hair was long and blond.

"Tell me something interesting that you did in college," asked the broker.

"I built a doll house," answered Kurt Handschumacher.

Elsewhere, that response might have earned him a handshake and an escort to the elevator. But the broker leaned closer.

"Tell me more about the doll house," he said.

Handschumacher did better than that. He pulled out photos of the project, which he had brought with him. The doll house was filled with miniature period furniture which the young man had precisely crafted. Handschumacher got the job.

"I felt that anyone who could focus on that level of detail would bring the same care to brokerage," explains the interviewing broker.

Handschumacher rose to become the firm's first analyst to earn more than $1 million. Although his work might well be highly valued by an accounting or consulting firm, it's unlikely that his dollhouse would have been the springboard to a job.

Ted Rotante, a Studley broker beginning in 1979, left behind a career as a modern dancer. With his first wife, Nora (daughter of folksinger Woody Guthrie), Rotante had a dance company. "My knees were starting to act up, and I felt it was time to find something else," says Rotante. Julien conducted the interview. "He wasn't just dancing," says Julien. "He was also handling the bookings and finances of his dance company. Why couldn't he be effective outside of the arts?"

"Julien gave me a desk, a phone, and a small monthly draw," says Rotante. "I started by calling people working around the edges of the arts, a world I felt comfortable in." In 1985, Julien put Rotante in touch with a real estate investor he had met on an airplane. The investor and two partners had bought the old Haaren High School, vacant but fabulously ornate, on Tenth Avenue at 58th Street. Their plan was to convert it into video production studios. "The rent they could get wasn't enough to make it work," says Rotante. "Meanwhile, right across the street was John Jay College of Criminal Justice. Its lease was expiring. Putting John Jay in this great space was a no-brainer." The ex-dancer collected his firm's first commission exceeding $2 million.

In 1999, a fat time for brokers, Rotante took a cold call that didn't sound promising. An assistant to an executive in the cable television world was looking for 3,000 to 4,000 square feet of space. "When I asked who her boss was," says

Rotante, "she insisted that she really couldn't tell me. Still, I got a little jolt of electricity." The unnamed executive's space needs grew. The lease that she finally signed was for 100,000 square feet at Chelsea Market at Ninth Avenue and 16th Street. The client was Oxygen Media, and the unnamed executive was its chairman and CEO, Geraldine Laybourne. "The moral of the story," says Rotante, "is never throw a dollar bill on the floor." A few years later, Rotante aided Laybourne in downsizing Oxygen Media.

The success of Studley's offbeat hires, not limited to Handschumacher and Rotante, is more than dumb luck. It goes to the heart of Julien's leadership method, as pinpointed by Don Schnabel. "Many people think that Julien is very good at getting people to do what he wants them to do. But that's a fundamental mistake. Julien's managerial gift is to open up the space for people to meet their *own* possibilities."

Not every individual at Studley, however, may be psychologically ready to meet his or her own possibilities. Once, Julien was interviewing an assistant to a senior broker at a newly opened branch office in Dallas. The young man proudly told Julien that he was the first person from his family to go to college. He had even gone on to get an MBA. He was planning on soon becoming a junior broker, not merely an assistant. He smiled proudly. But instead of congratulating the interviewee, Julien stared at him in silence for a long moment.

"How long were you an assistant broker before coming here?" asked Julien.

"Several years."

"How much did you make last year?"

"$30,000."

Julien frowned. "I'm worried about your valuation of your own self in this job. You should be making more than $30,000 by now. Is it possible that, because you've accomplished what nobody else in your family has, you think you have gone far enough?"

"No, no," the young man answered.

"Then I would say to you that you need to have a passion to excel at some part of this business so that you can move up the ladder rapidly. If you're not making $250,000 in a year or two here, go find another business."

The young man gulped.

"If you do think that you've already accomplished enough here," continued Julien, "that's understandable but not acceptable."

Julien shook the young man's hand. "You knew you'd get a blunt view from me, right?"

"I guess I needed to hear that, Mr. Studley." It was time for the next interview.

Trips

Studley's offbeat culture shows up, sometimes strikingly, in its choice of destinations for the firm's annual winter trip, rewarding around 75 of the previous year's highest-earning brokers (commissions not less than $750,000 in 2000). Incentive trips are a bedrock of corporate sales culture, of course. Typical destinations might be Palm Springs, Hawaii, Paris, London, or a luxurious Caribbean beach resort. But

Studley's 30-odd winter trips have almost always bypassed the standard venues and left luxury far behind as the brokers packed their bags for places like Manaus, Cartagena, Huatulco, Yelapa, and (in the year I met Julien) Chichicastenango. They've been gored by bulls, cornered by scorpions, stranded in remote fishing villages, and made ghastly sick by microbes on the Nile or by heavy seas off Patagonia.

The most startling, even notorious, image from the winter trips was captured in 1990 by a photographer for *National Geographic* magazine on assignment in the Amazon Basin. It shows five men lashed to trees in the coffee-colored shallows of the Rio Negro, a tributary of the Amazon River. They are naked except for loincloths, and warpaint dabbed on their downturned faces. You might guess this scene is a throwback to an era of tribal wars in which the defeated warriors have been left by the victors to the untender mercies of a river teeming with piranhas, water snakes, and leeches.

In fact, this captive quintet is made up of Studley brokers on their first winter trip, here being initiated into the ranks of the firm's top earners. Back home, they've excelled at what war is usually about—winning turf for their clients against other combatants who would wrest it from them. Besides fending off competing brokers, they must also sometimes face off against landlords. As in war, uncertainties abound and the situation on the ground is often foggy or fluid. Without aggressive instincts, they'd never succeed. The story is told of a Studley broker, Mark Jaccom, who spent weeks fruitlessly trying to talk directly to the CEO of a Manhattan firm that was a potential client. In one of his numerous calls to the CEO's secretary, Jaccom was told that her boss would be unavailable all the following week because he was flying to Florida on Monday morning.

"Thank you," said Jaccom, and he hung up.

As the CEO took his first class seat on the flight to Florida, Jaccom was in the adjoining seat. By the end of the two-and-a-half-hour flight, the CEO had capitulated to superior reconnaissance and infiltration. Jaccom took over as the company's primary space broker. In 2003, as part of Studley's incoming leadership team, Jaccom became Vice Chairman of U.S. Operations.

Wired Up Early

Julien has long worked out of a modest-sized corner office on the third floor of 300 Park Avenue. Here at midtown's heart, his east-facing windows look out on the entrance to the Waldorf Astoria Hotel, with its perpetual bustle of taxis and tourists. From the north windows, the view is of Saint Bartholomew's Church with the pinnacled General Electric Building rising behind it. Beyond that, is the Seagram Building. Being close to the street, the view is surprisingly intimate. Fresh flowers always adorn Julien's office. His blond desk is clean-lined, as are the sofa and leather chairs. There is no bookcase, but the most striking absence might take a few moments to identify: This office is computerless.

Young brokers may have felt that, without a computer, their septuagenarian boss must be out of touch with technology. In fact, when laptop computers were first being marketed, Julien ordered two for the firm and for a while kept one on his desk. A charter subscriber to *Wired* magazine, Julien also saw to it that his firm was among the first brokerages to create a web site. And while one of Julien's key management themes is minimizing administrative staff, he did hire an information technology specialist in 1981, a time when the term was not well known.

"I remember Julien walking into my office over 20 years ago," says Tsun Tam, the man Julien hired. "He asked me if I'd ever heard of 'this thing called COMDEX.' Of course, I had. It's the annual show for business technology held in Las Vegas. It was only about a week until it was opening."

"You should be there," said Julien. "If you find anything interesting for us, give me a call. I'm staying at Binion's Horseshoe."

"It'll be expensive for me to fly on short notice, and besides, it's too late to book a hotel room," said Tsun Tam. "Las Vegas is packed for COMDEX."

"I'll get you a room," said Julien.

Tsun Tam did see something interesting: a new way to make multimedia presentations by IBM. "I thought it could be used at our summer outing and Julien agreed," he says. "We hired IBM to do it."

In the late 1980's, Julien queried Tsun Tam about the Internet, then in its infancy. "I told him that it was only a college slash government thing," says Tsun Tam, "and that only the geekiest guys used it. But he wasn't dissuaded. He wanted us to have the Internet."

Julien's self-judgment, seconded by his colleagues, is that he was never the firm's best broker. Not even close to the best.

To excel at brokerage requires a single-minded drive toward closing the deal that is the opposite of Julien's free-roving approach. His strengths have been to firmly shape a corporate culture that embraces offbeat but creative talent and to provide the platform from which deals can be done with the Studley stamp. Julien was also adept at getting the firm noticed in the press, especially when it was small. As times changed and the firm grew, he found routes to go forward and exerted the considerable force of his personality in keeping the peace among his often boisterous clan of brokers.

And they could be boisterous. I remember a winter trip luncheon at a restaurant on a quiet street in old Seville during the siesta hour. Quiet except for a Studley broker, pacing on the sidewalk, shouting into his cell phone to someone back in New York, "Listen, you tell him I put my balls on the line for him, so he better goddamn well do the right thing by me now…"

Early on, so-called "renaissance brokers" handled every aspect of a deal. Proverbially, they could do the numbers on the back of a napkin with a pencil in one hand and a deli sandwich in the other. But that model didn't work for national companies like Marsh & McClennan, Gateway, or Microsoft, all of which became Studley clients. Before settling on a location, these companies often demanded precise data on demographics, transportation, municipal incentives, and quality-of-life information markers. In the mid-1980s, Studley responded to these needs by creating a national accounts division. Brokers might now have to do troublesome little deals, not worth their time if taken individually, in the hope of more lucrative deals for the same client. For a firm that had long been known as a master of the one-off deal, this was almost a sea change.

In 1985, Studley hired Nicholas Borg to be the firm's chief operating officer. Borg, formerly a top executive with the New York City School Construction Authority, had no brokerage experience. Studley's brokers, out of whose commissions his handsome salary was paid, did not give Borg a warm welcome. Still, for the first time, Borg began to rationalize Studley's increasingly complex business practices.

From national accounts, it was a short step to the birth of teams of brokers, sharing commissions and using analysts, graphics and space designers, construction specialists, and even lowly cold callers for support. Here, indeed, was the sea change. Teams could swiftly create a sophisticated presentation that not even a renaissance broker could match for, say, a local law firm contemplating a move. The best of the behind-the-scenes team members are paid accordingly. When an analyst first earned over a million dollars in the 1990s, it was a potent sign that Studley's strength had shifted from the mythic renaissance brokers to interdisciplinary teams.

Still, this was the firm that had not gone the route of its competitors in the previous decades. The competition, as it grew, expanded services to include interior design, engineering, construction, and financial services—so-called "one-stop shopping." Studley had resisted that impulse despite the risk of losing clients who preferred the convenience of bundled services. The firm had also stayed clear of property management, even though "fixing toilet-stall doors," as Julien scornfully summarizes that bedrock business, can provide an income cushion in slack times for leasing. Weighing down the payroll with functionaries, according to the Studley view, slows the deal-making reflex. It's the workings of that reflex that these pages attempt to reveal.

Julien created an office of the president in 1997 in preparation for a transition to new leadership. By the spring of 2002, as he celebrated his seventy-fifth birthday in full vigor, no real transition at the top had occurred. But one was in the making. A group of 45 brokers, led by Mitch Steir, proposed to take control by buying out Julien and several other senior shareholders. Steir had built a team of brokers and analysts in the midtown Manhattan office that generated over $15 million in commissions in a single year. In a vote of confidence in the new management, each broker invested a minimum of $100,000 in the buyout—quite a contrast to companies in which executives unloaded shares as the market headed south. Or wished that they had. The transition, completed at the beginning of 2003, went smoothly.

Like the deals his firm is known for, Julien was a one-off leader. The boyish Mitch Steir has his own style, starting with his addiction to the fortunes of the Boston Red Sox (Julien's eclectic interests do not include sports). Still, inventive deal-making must remain the firm's core strength, as an incident in Argentina during the 2001 winter trip suggests.

After lunch at a restaurant on an island near Buenos Aires, the brokers heard a presentation by an executive with Zethus, a new and ambitious web-based brokerage services provider. Anxious to get Studley as a client, the Zethus salesman traveled from New York to make his 45-minute pitch on "automating many of the processes involved in leasing, buying and selling commercial property." But these several dozen brokers, sitting on a beflowered veranda, were cool to the claims touted for Zethus. In fact, they were downright stony-faced. Their instincts told them that, despite the executive's grandiose claims of a rosy future for his firm, it was sinking. They were correct. Zethus is gone.

After the executive departed in a waiting water taxi, Michael Colacino, now Studley's president, summed up both the brokers' judgment and his own firm's essence: "This guy missed the point," said Colacino. "He's trying to sell us a broker in a box. We're brokers outside the box."