

Summer 2001

Marshall

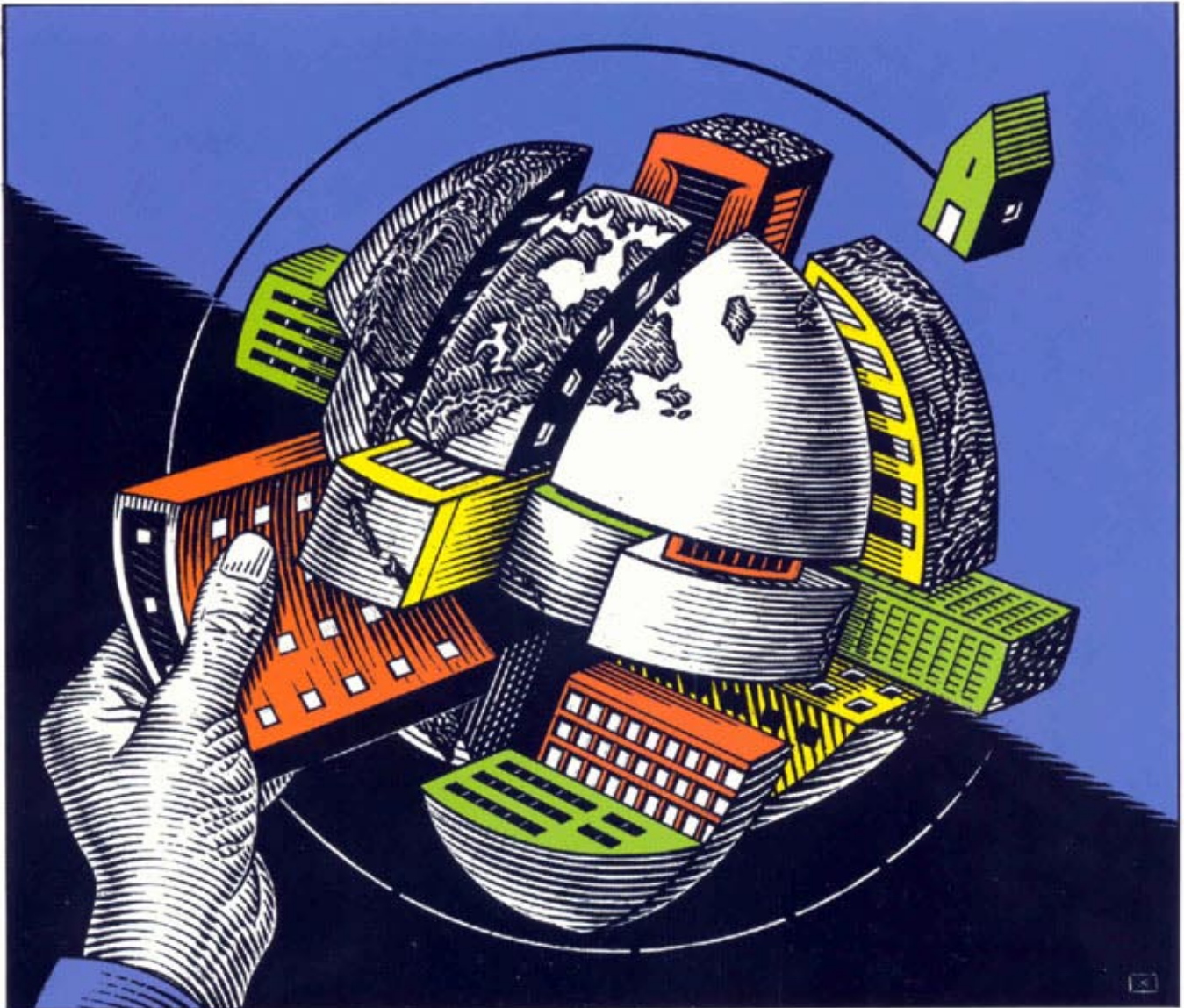
Classmates, Friends, Entrepreneurs:
Tom Barrack, Bob Best and Bill McMorrow p. 40

Cuba Firsthand p. 22

"Opening the Doors to Home Ownership" p. 62

The Magazine of the Marshall School of Business at the University of Southern California

www.marshall.usc.edu



REAL ESTATE INVESTMENT

THE STATE OF REAL ESTATE
Consolidation and Globalization in the Industry
Stan Ross

University of Southern California, Marshall Magazine
Hoffman Hall 500C, Los Angeles, CA 90089-1425

USC

Friends in High Places

Forget money. Forget power. The key ingredient in the success of Tom Barrack, Jr., Bob Best and Bill McMorrow is friendship.

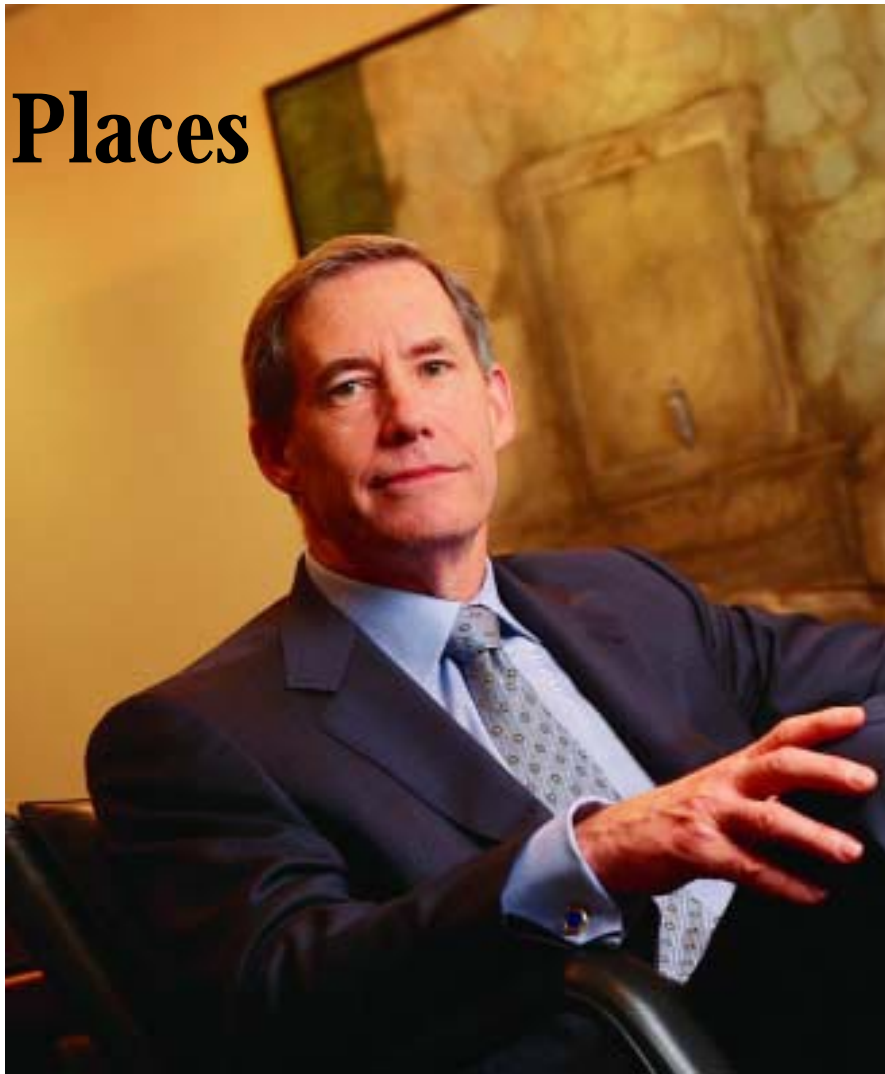
The three Marshall School alums have followed similar paths to success. The trio formed their friendship at Loyola High School in Los Angeles when they were 14 years old, strengthened their ties as undergraduates at USC, and continue to turn to one another for advice and support in their adult years, when they each started, and still operate, companies in the real estate industry.

“We developed these friendships that have lasted us our whole lives,” says McMorrow. He is Chairman of the Board and Chief Executive Officer of Kennedy-Wilson International, a real estate firm based in Beverly Hills that offers its clients a variety of services, including investment sales, property management, leasing, construction management, development and acquisition services, and technical consulting. The firm handles \$2 billion worth of funds for large institutions based both in the U.S. and Japan, and has grown from 35 employees in 1977 to 1000 today. McMorrow graduated from USC in 1969 with a BS in Business and obtained an MBA from Marshall in 1970. His sentiments are echoed by Barrack and Best.

“We had a lot of fun. There’s no doubt about that,” says Best of their undergraduate years together at USC. Best runs Westar Associates, a private company that acquires, develops, rehabilitates and manages retail shopping centers, the majority of which are located in Southern California. Westar has developed 31 centers totaling more than 4.5 million square feet valued in excess of \$500 million, always with less than 20 employees. Like McMorrow, he holds an undergraduate degree in Business and an MBA, both from Marshall.

“We all started down different roads, thinking that we were going to do different things,” explains Barrack, now Chairman and Chief Executive Officer of Colony Capital, Inc., one of the world’s top real estate investment funds with close to \$8 billion in

assets. Colony owns stakes in such properties as the Savoy hotel chain in the United Kingdom and its subsidiary, Harveys Casino Resorts, continues to expand its U.S. casino and hotel earnings. Colony Capital is partnered with Kennedy-Wilson, McMorrow’s firm, in Japan, expanding the scope of their bond from personal to



MICHELE A. HSMITH

William McMorrow, BS '69; MBA '70
Chairman of the Board and CEO,
Kennedy-Wilson International

professional. Barrack graduated from USC with a BS in Business in 1969 and his law degree in 1972.

The three men did indeed arrive at their destinations via different routes, dating back to their days at Loyola, a Jesuit high school. “The three of us all played football, but McMorrow was good enough to start, and Tom and I were smart enough to sit on

the bench,” says Best.

McMorrow ended up at Marshall with Best and Barrack in his junior year, after attending college in Washington for two years. He met and married his wife as an undergraduate and continued to work, which he’d been doing, in one capacity or another, since the

“History doesn’t mean anything; it’s what you learn from it,” says McMorrow.

“and what you did yesterday means absolutely nothing today.”

age of eight. This early work ethic is apparent in his attitude and accomplishments.

"History doesn't mean anything; it's what you learn from it," says McMorrow. "And what you did yesterday means absolutely nothing today."

McMorrow joined Kennedy-Wilson in 1988, having spent the years following graduate school in the banking business. His interest in real estate was triggered during this time, when one of the banks McMorrow was working with ran into trouble with real estate and he was drafted into repairing the damage.

"There's always an element of luck in business, and it's taking the lucky thing and building something out of it," McMorrow says.

In 1990, Kennedy-Wilson began doing business with a Japanese company that owned real estate in the area, hoping to build a long-standing relationship with it. McMorrow and Barrack, who had just begun doing business together, initially encountered some obstacles in communicating with their Japanese colleagues.

"We're both running so fast in many different directions that we just expected everybody to be on the same page with us," explains McMorrow.

After venting his frustrations to his manager over the phone, McMorrow went for a walk and came to a realization.

"It wasn't them—it was us. We had never taken the time to go over the fundamentals with them, so I went in the next day, we cancelled every meeting for the next two days, and we got out the blackboard," says McMorrow.

This experience cemented McMorrow's respect for the importance of teaching, which he gained as a student at Marshall. He continues to apply this lesson at Kennedy-Wilson, where he supports and encourages employees just starting out in the real estate business.

"The most satisfying part is seeing people succeed," McMorrow says.

Like McMorrow, Bob Best has benefited from having loyal people associated with him.

He says that, "having people stay with me and work together as a team," has been his biggest accomplishment at Westar, which he started in 1980. Best has always aspired to run his own company, drawing inspiration from his father, who arrived in the U.S. from Ireland at age 11 and still works every day at the manufacturing company he owns at age 85.

"I always wanted to try to fly beneath the radar and have more control over what happens," says Best.

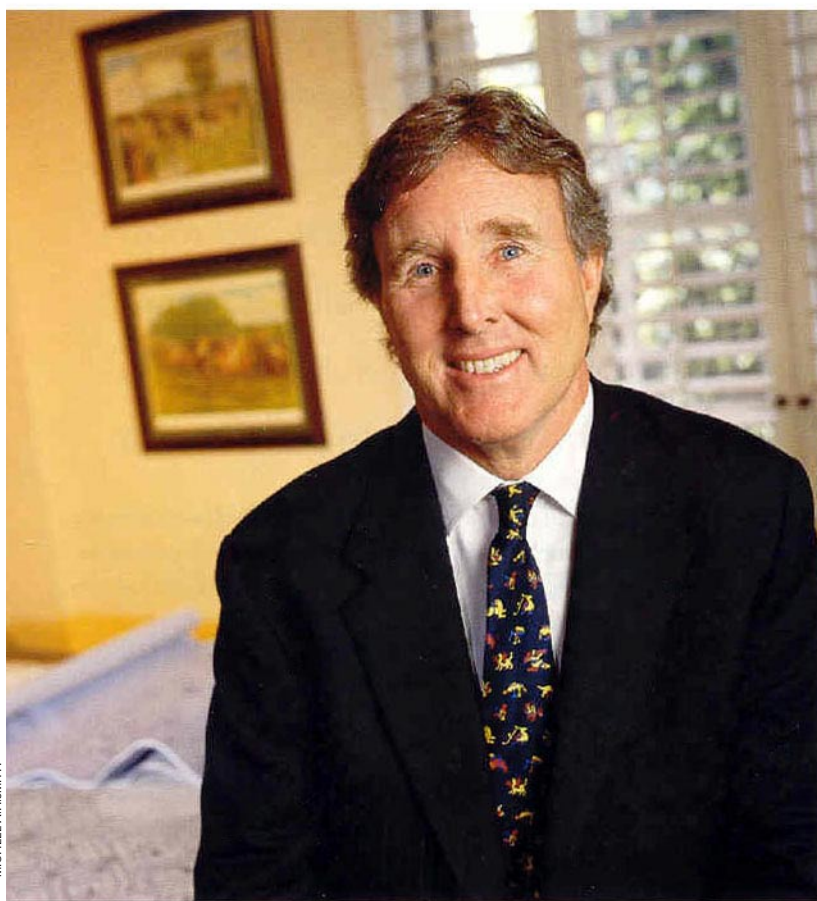
But it took Best a while to figure out how to achieve this control and independence. After graduating, Best worked for a

few big corporations, but was not satisfied in a subordinate capacity. He had not taken real estate classes at USC, so began reading literature about the shopping center development sector, sending letters and resumes to companies, and making calls to friends, including Barrack, who was working as an attorney at the time. Barrack pointed Best in the direction of a client with his own shopping center development company. Best ended up working for Barrack's client for six years.

"I think the social part of your education is just as important as the technical part of your education," Best says. "People skills are very, very important. Once students leave, they should stay connected, not just because they want to play this network game, but I think it's important to try to give things back."

Best believes that the most important factor in his success in the real estate business is his location.

"You don't have to be smart to be successful in Southern California—population growth drives everything," says Best. "With six million new people in California in 20 years, there's cer-



MICHELE A. H. SMITH

Robert Best, BS '69; MBA '70
President,
Westar Associates

“With six million new people in California in 20 years, there’s certainly a demand...You can’t put up a sign that says, ‘No more people.’ You have to service them,” says Best.

tainly a demand for what you’re doing.”

The challenge for Best is balancing the population explosion with the public’s desire for slow growth and pedestrian-friendly shopping centers, two elements that don’t go together without some effort.

“You can’t put up a sign that says, ‘No more people.’ You have to service them,” says Best. But, given what Best deems the tremendous opportunity in Southern California, “That’s an easy problem.”

Tom Barrack came to the realization that life was about figuring out how to conquer problems, both easy and difficult, when he was a law student at USC. His graduate school experience smoothed his transition into the business world.

“The relationships there and the ability to get a great job coming from USC was much, much better than it would’ve been from any other school. Marshall grads stand toe-to-toe with Harvard and Stanford in every respect and they have one thing that

gives them an advantage: they have a little more hunger. And hunger in business works,” says Barrack.

It has certainly worked for Barrack. Colony Capital, Inc., is celebrating its 10th anniversary this year and has offices in seven cities around the world, all based in real estate and real estate operating companies. Colony is involved in a myriad of businesses, including hospitality, public services and gaming. He believes that in order to achieve success, hunger should be combined with instinct, and tries to convey this message to his newer employees.

“I want to teach them to rely on their instincts and instincts are the result of years and years, and hundreds of thousands of hours of preparation and perseverance, and come from making choices in the middle of that preparation and perseverance,” Barrack explains.

The turning point in Barrack’s own career came when he was a practicing finance lawyer in Los Angeles and was sent to Saudi Arabia to negotiate a contract, the thinking being that his Lebanese heritage would give him, and his firm, an advantage in the negotiations.

“They sent me there and I never came back,” he quips.

Barrack remained in Saudi Arabia for three years, where he learned intellectual flexibility and humility, attributes that served him well later in his own business.

“The experience gave me a tremendous competitive advantage because then I was comfortable in places other people weren’t,” says Barrack.

This advantage has paid off. Today Colony operates on every continent, has 27 foreign operating companies, 30 foreign partners and conducts 60% of its business overseas.

The one constant in the three friends’ different experiences has been the support they have given one another over the years, as well as the support they have received from their families. All three men rate their families as their biggest accomplishments and credit USC with fostering the friendships that have supported and guided them over the years.

“At USC, my family supported me and at high school our magazine was called *The Loyalist*, so it was pretty much drummed into you,” says Best of their close ties.

That is not to say they didn’t enjoy themselves as undergrads.

“I think Bob and I had the same motto: Everything in



MICHELE A. SMITH



Thomas J. Barrack, Jr., BS '69; JD '72
Chairman and CEO,
Colony Capital, Inc.

excess, nothing in moderation. Bill was a little more serious—he got married younger. Fraternity life was the only time in life there was a total agreement about being irresponsible. It was absolutely pathetic,” quips Barrack.

Their advice for current USC students is to value their relationships, both personal and professional, and to take chances.

“I think the greatest message to students aspiring to go into business is that they need to be willing to take risks at every point in their career,” says Barrack.

McMorrow seconds this advice.

“If I look back, I just wish I would have taken risks earlier in my career, because you don’t get a second chance,” he says.

Their biggest challenge now is finding a balance between work and play.

Best has achieved this by dramatically reducing the number

of hours he works every week.

“At my first job, I worked 60-80 hours a week. I have four kids, so I try to balance things out,” Best explains.

Likewise, Barrack and McMorrow make spending time with their children a priority.

“We are very fortunate that we’ve got two young boys because I can’t imagine how nutty we’d be otherwise,” says McMorrow of himself and Barrack. “It’s forced us to go back to a place where you’re pretty grounded.”

Best, Barrack and McMorrow also emphasize that students should be able to prioritize work and family, as well as find work they love.

“My first passion is my family and my second passion has to be my business. And if your work isn’t your passion, then you’d better stop,” says McMorrow. ■

“The relationships there and the ability to get a great job coming from USC was much, much better than it would’ve been from any other school. Marshall grads stand toe-to-toe with Harvard and Stanford in every respect and they have one thing that gives them an advantage: they have a little more hunger. And hunger in business works,” says Barrack.