BISNOW

Exclusive: Michael Alter on Building a Real Estate Empire, and Why He's Selling It Off

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Publisher's Note: With the Bisnow editorial staff now covering 27 cities coast-to-coast, we're excited to bring you our latest longform report. Based on exclusive interviews, our Chicago colleague Lee Murphy has prepared this Bisnow Special Report on Michael Alter, leader of one of the country's largest real estate development firms. You can read past longform articles, including pieces on the founding family of General Growth Properties here; one on the remarkable Goldman family here; and the tale of the Barclays Center shakeup here.

The Alter Group's headquarters are in a sleek, Helmut Jahn-designed low-rise in the Chicago suburb of Skokie, a gleaming glass and steel showpiece in a neighborhood of mostly ramshackle old warehouses. Built for Chrysler originally in the 1960s, it's believed to be the celebrated

German-born architect's first US project. Alas, Alter's piece of the structure sits nearly half empty most days, with no lobby attendant on duty.

Don't fret, however, for Alter or company president and CEO, Michael J. Alter, left. In the past couple of years he's been patiently pruning back his portfolio of office buildings that, as recently as a decade ago, ranked the business among the US's top five office owners. The Alter legacy—stretching back to the firm's founding by Michael's father, William, 60 years ago—has been one of continuous rebirth and transformation, from residential homebuilding to industrial developer to office owner.

Now Michael, joined in the executive suite by his younger brother Harvey, right, a VP, is replenishing capital and looking to embark on the next chapter, this time likely to encompass a broad, mixed-use approach spread among city and suburbs in major markets across the nation.

Michael Alter started the Chicago Sky, in the women's pro basketball league, the WNBA, back in 2005 with a $10M investment and has been willing to hire other people to run it. The current president is Adam Fox, 48, once an executive with the Chicago Wolves minor league hockey team. He must be doing something right: the Sky includes the greatest female basketball player of the moment, Elena Delle Donne, and in recent seasons has gotten to both the semi-finals and finals of the league playoffs before losing its bid for a title.

Fox has found Alter to be a good boss. “Michael is always involved but never intrusive,” Fox says. “He has opinions, but he wants our opinions too. This is not one-to-nothing the majority rules here. In the end he tells us to do what we think is best.”

Michael is also a big supporter of City Year Chicago, which mentors young people in school. Recently, the organization sent more than 200 volunteers into troubled Chicago schools to work with some 15,000 students to boost their grades and lower the dropout rate. Alter has donated more than $1M to the organization.

Bill Alter went to his grave bemoaning the increasing influence of Wall Street and financial engineering strategies on commercial real estate. Michael believes that might be to Alter’s advantage: “As a family company, we can offer tenants and customers a different approach,” he says.

Yet the family approach may not last forever. Michael’s brother Harvey is a year younger, but neither one has any children in the business. Michael and his wife, Ellen, a clinical psychologist, have three children. The oldest, a 25-year-old son, is a high school teacher in Chicago. Another is a musician in Oregon while a daughter is in college studying to be a teacher. At the same age, Michael was showing no interest in real estate as a career either. For now, he’ll concentrate on the challenges at hand. “I hope to work another 15 years myself,” he says. No one knows like him it’s better late than never to join the booming family business.

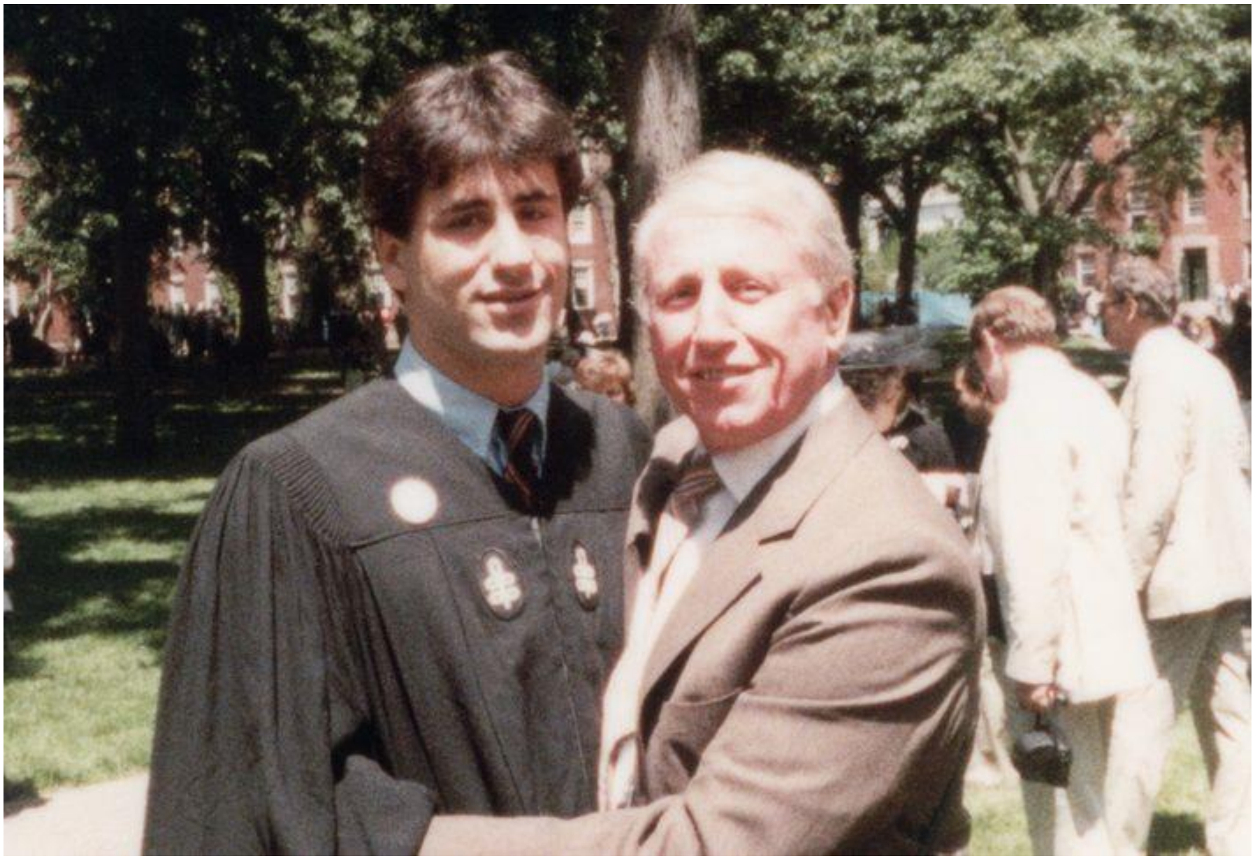
Rich, Randy, Michael, Sam, Harvey and Ron.

The company is well-positioned for new ventures: it has a portfolio of nearly 1,000 acres of raw land, most of it acquired as farmland by the far-sighted Bill Alter in periods stretching back to the 1960s. There are 19 acres in Virginia outside Washington; 14 acres in Orlando, FL; seven acres in Atlanta; and 93 acres in Phoenix and Scottsdale, AZ. The biggest chunk of all is a 650-acre assemblage in and around the far north Chicago suburb of Grayslake.

One thing seems certain: Like his father before him, Alter is determined to remain independent. “I’ve looked at the idea of going public, or starting a fund, or bringing in a full-time institutional partner,” says Alter, 54. “I came to the same conclusion my father, who got offers to sell out all the time, did. We like our independence here. I wouldn’t be very good in a public company.”

Michael’s studied, even cerebral, approach to development stands in stark contrast to his father's, and reflects the sea change in the commercial real estate industry that divides the decades immediately after World War II and the present era. Bill learned homebuilding from legendary Chicago tycoon Arthur Rubloff and, with a $3k loan from his parents, built his first single-family house on Chicago’s North Side in 1955, at the birth of the firm. He eventually erected 7,000 houses, and as he morphed from there into commercial real estate in the ‘60s he increased his holdings with the help of friendly local bankers willing to extend capital to Bill, an emotional personality given to decision-making on gut instinct. Alter was a prime example of the sort of family businesses, along with names like Rubloff in Chicago, Trammell Crow in Dallas, and Irvine south of Los Angeles, that flourished through the ’60s and ‘70s as population shifted from cities to suburbs en masse and retail stores and corporate headquarters followed along.

A worthy ambition, surely, but the marketplace was changing. The demand for big new offices in the suburbs where build-to-suits were typically erected began to evaporate as young corporate workers showed a preference for working in urban downtown. Moreover, Bill Alter’s reputation was that of always a buyer, never a seller: he put up 300k SF office buildings in the suburbs and then hung onto them forever.



Michael and Bill after graduating from Harvard.

Recessions in 1991, 2001 and 2008 and see-sawing markets undercut old-style development as Wall Street-backed investment groups displaced entrepreneurs like Bill Alter. Michael Alter almost didn't make it to work with his father at all. He was an athlete in high school on Chicago's wealthy North Shore, playing basketball and football. But he was also smart, and gave up the sports once at Harvard, where he studied government and got a liberal arts degree before moving on to the University of Chicago to get a law degree. Then, in the late '80s, he went to work for a major downtown Chicago law firm.

"I had zero interest in the real estate business as a kid growing up," Michael remembers. "I think I saw working for the government as a long-term goal. My dad had little respect for attorneys and was upset that I didn't go to business school instead."

Then something changed his mind. Bill was doing estate planning around 1990 and asked his son to attend long meetings with bankers and lawyers who were mapping a future for the family. Brother Harvey was working for Hyatt at the time, and another brother and sister were not in the business. If the company was going to stay family-owned, it looked like it was up to Michael to carry the torch. "I knew nothing about real estate, but I told my father I'd give it a try. I came to work for the firm," Michael says.

He stayed in the background for a while before he began to assert himself and move Alter in new directions, even if his father didn't always go along willingly. First, he moved the company beyond its historic focus on the Chicago area to development work in places like Washington and Phoenix. Alter was going national.

Then he made it clear that Alter's mission would move to larger-format projects. For years the company had bid on every 50k SF industrial building project that came on the market. From then on, Alter would concentrate on big build-to-suit deals—one client was AT&T—for larger customers seeking corporate campuses. "The little industrial buildings were low-margin work. I felt we should be doing more important, and profitable, projects," Alter says.

Michael's family: Jonathan, Jennie, Bill, Michael and wife Ellen.

Bill Alter had a nose for promising dirt and an easy way of glad-handing public officials for the zoning he wanted on his raw land once it was acquired. (In fact, he is credited as the first developer to offer local government the planned-unit development concept, asking for zoning for an entire project upfront instead of building by building.) And Bill was also a voluble presence around the office, often venting his orders in high decibels. And yet, when the time to hand over the reins of the company came—16 years ago—the transition went smoothly.

Matthew Ward, an Alter executive from 1997 to 2014, remembers that Bill smoked a cigar on a Friday afternoon and retired quietly. He was still around the following Monday, under the new title of chairman, when top executives gathered for their weekly discussion of fresh ideas and opportunities, nicknamed the "gauntlet" session.

"Out of habit I was talking and I was looking directly at Bill as I made my presentation," Matthew recalls. "Bill held up his hand to stop me: 'Why are you looking at me? It's Michael who is running the company now. Talk to him.' That's how fast it happened, which is a rare thing in a family business. There was no acrimony, and suddenly Michael was making the decisions."

They weren't easy decisions. Office development was slow, and the build-to-suit market amid a sea of unfilled spec buildings was even slower. Michael and his team, headed by key lieutenants in EVPs Richard Gatto and Randy Thomas, came up with a hybrid solution for companies seeking office space and called it ReadiDesign. These were efficient and functional, pre-designed buildings of 75k to 150k SF stretched over three or four floors that could be erected quickly and cheaply on pre-zoned lots—cutting time and price for a tenant unwilling to commit to a full build-to-suit. The only downside, critics would say, was that the buildings were generic, plain-vanilla boxes that would never win any architecture prizes.

Michael Alter has sought out niches where he felt the company could bring special expertise. He began erecting medical buildings, such as the six-story Morehead Medical Plaza at the Carolinas Medical Center in Charlotte, NC. And the company was a pioneer in putting up mid-rise office buildings in Chicago's emerging River North neighborhood. A 260k SF building at 20 W Kinzie went up in 2004 and attracted Google's Chicago HQ. Another building at 111 W Illinois about the same size most recently has signed Salesforce as a tenant. While bigger developers were pushing to do million-square-foot high-rises in Chicago's central business district, Alter was happy operating on a smaller scale.

In 2008 Bill Alter, suffering from Alzheimer's, died at the age of 79. The recession the same year hit the company hard. Alter hadn't securitized any of its loans and had a good balance sheet. But as occupancies shrank, the strong cash flow the company had always depended on to pay down debt steadily diminished.

Even so, Michael resisted selling assets at the low ebb of the market. And he kept on most of the company's 100 or more employees, dipping into his own savings for liquidity. "We were under cash flow pressure that was pretty severe," Alter says. "A public company would have just slashed its staff by 20%. But that wasn't the way we do things."

He toughed it out and now Alter's patience is being rewarded as Michael unwinds much of the building portfolio. The 111 W Illinois building, for instance, was sold in July to a German real estate group, GLL Real Estate Partners GmbH, for an undisclosed price, with a reported cap rate of just over 5%. More than 60% of the portfolio, which once topped 14M SF, has been sold off at a profit.

"There's a tremendous amount of capital looking for real estate assets now, and debt is cheap," Michael says. "This may be the best time to sell in my lifetime." There is more on the market, including the Arizona Design Center—142k SF in Phoenix—and the West Kinzie office building in Chicago, both likely to be sold within a year or so.

The money will be reinvested at a steady rate, Michael promises. The biggest project of all could come on the 650 acres in Grayslake. Alter figures to build out that tract over the next dozen years at a cost of $750M or more, with 3.5M SF of office and light industrial likely along with 600k square feet of retail and 800 homes, most of them townhouses and apartments. Nearby, in the Chicago suburb of Downers Grove, Alter is planning a 300k SF spec office project.

On a 180-acre site south of Atlanta called King Mill, Alter is planning another 3M SF of industrial and office space. Hotels and restaurants may be possible, too, on these big tracts. Meantime, the company is also moving into college housing, converting the historic Fornelli Hall in Chicago for $45M into housing for 500 students. With 30 higher-education schools in Chicago carrying enrollments of 100,000 students, Alter figures the market is ripe for similar projects.

At the same time, plenty of challenges lie ahead. Michael would like to do more development work in Chicago and other downtowns, particularly Boston and Seattle where the company has had little presence in the past, but developers putting up apartments and hotels have been able to outbid all other uses for promising sites. Alter doesn't have expertise in either the apartment or hotel categories, although Michael says he might take on such developments if he can find the right partners or hire executives with talent.