

CONVERSATIONS WITH MIKE MILKEN



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Mike Milken: Ken, thank you for joining me today.

Ken Lombard: Well, thanks Michael. Thanks for the invitation.

How's your family doing?

My family is good. We've got grandkids and kids in Seattle and in Houston and everyone seems to be doing fine. Our Seattle group came down and spent some time with us over two months to kind of get out of that environment for a while. So that was fun, but everyone's safe and healthy.

The first real cases [of COVID-19] were in the Seattle area. Today, maybe the major increase in cases in the United States is in Houston. How are your children reacting to what's going on in those cities today?

They're taking a calm approach, not overreacting, just doing the things that they know they need to do. Stay safe. Wear masks. Shelter in place. They've got the appropriate amount of discipline around it. In both cases they have children that they have to be concerned about, so recognizing that this is a dangerous situation we're in.

Growing up in Seattle, does it bring back any memories with what's occurred in the month of June in Seattle?

Surprisingly, when I talked to people, the perception of Seattle is one that it's an extremely liberal city. Growing up I didn't really feel that way. I don't want to go as far as to say it was segregated, but fortunately all of the schools I went to were all predominantly white schools. You had the central district where the African Americans and minorities lived, which has changed now, as you've had some regentrification of those neighborhoods. I grew up knowing that there was certain things we could do, certain places we could go. At that particular time, Ballard was considered kind of, you know, you did not go to Ballard by yourself. I remember having an uncle that went to West Seattle and ended up having an issue over there. So, it was not a good situation when I was growing up there. We just stayed in the central district; stayed in the neighborhoods that we were in, and frankly just grew up that way. But in my day, going to school was very much in a predominantly white type of environment. It was one of those things, that you grow up understanding how to deal with all people. But I always maintained my own identity. I mean, my family came out of Louisiana and they were very proud to be African American and made sure that I understood that.

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Seattle had an unusual entrepreneurial community. Starbucks, a company, you know very well. Thousands of millionaires were created and two of the three most-valuable companies in the world. It's kind of amazing when we think about it – both worth more than \$1.3 trillion. Amazon and Microsoft gave birth in Seattle at that time and built workforces that were pretty diverse in both cases. Did you feel there was an entrepreneurial community there in Seattle or did that really come about after you left?

I think there was an entrepreneurial spirit in the community there. There was a huge divide. You had the larger companies, Boeing. Everyone, whether my uncles and cousins, everyone that was involved in a small business of some type. But it was really a parachute jump from the folks that had built the larger businesses like what you're suggesting. Taking a few steps down, people that were successful in the real estate business, those were all white entrepreneurs. And really, you found a parachute jump between that level of entrepreneur and the community and minority entrepreneurs. While I grew up around business all my life and was part of it, and family work there and we all had jobs that I didn't appreciate it at the time. I get what it taught me in terms of the work ethic, but I'm not sure it would be the businesses I choose today or the chores that I would choose today.

I had a chance to paint where my father had an investment in small apartment building and do the cleanup. It was a good learning experience for me to tell me that I wasn't good at painting. I wasn't good at putting up wallpaper. Those were not my skill sets. During this very difficult COVID-19 period, we had maybe 15 million-plus small businesses – a million of those headed by African Americans – and 41% of those have closed. They were restaurants. They might've been small dry cleaners. It might've been service organizations. But the group that's actually been hit, the hardest are African

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Americans, and the difficulty in running a small business in normal times and the challenges of access to capital, etc. As you think back to the days growing up, do you remember challenges to the family businesses as things ebbed and flowed during that period of time?

We were in a pretty good position. I really credit my grandfather for that because he figured out how he could position himself from a location perspective. As I mentioned, there were edges that were African

American, but they were all right next to each other in a city that is pretty lineal in terms of how it's set up. So our customer base was a very integrated customer base. We had folks coming from as a Madison Park area, which was really a predominantly white, one of the wealthier areas in Seattle. They also have people come from the central district. So there's kind of a great commingling. It was always hard work. We didn't necessarily get hit as hard when, let's say certain people started cutting back on how often they got their clothes cleaned because we had customers coming from all walks of life from an income perspective. But you knew it was there. We never had any debt because you couldn't get debt. It was always just managing the cash. There was enough to essentially pay us a nice

little stipend as kids and, and the grownups like the uncles, the aunts that were working there were able to basically make a living. But no one really got wealthy.

In the 1980s, you decided to come to Southern California. Why Southern California, Ken?

Ironically, I wasn't a big fan of Southern California growing up. I didn't particularly like LA.

Was that a throwback Ken, to your days playing UCLA in basketball?

When they set the record for the worst loss that Washington has ever experienced at the hands of Bill Walton and team, yeah it leaves a bit of a scar there. But it's just different. Seattle was comfortable to me. I had great relationships there. My friends were there. I'm not a guy that moves around a lot. So, an opportunity came up and I felt like it was the appropriate time for me and decide to take a risk.

I'm a little disappointed you decided not to come to see me as to the capital back then. Let's talk about your experience at Starbucks and maybe your early experience in interacting with Magic Johnson.

I'd be remiss if I didn't reference when I moved to LA and that was 1985 and I want to say it was 1988 where I met up with you. And the way I met you, obviously, it was around the conferences that you were having at the time. That for me was a significant opportunity in that you invited

probably a dozen entrepreneurs, and we had an opportunity to sit and pitch our projects or deals to you. You would always give us feedback; you didn't necessarily always say yes. But that's the first time that I felt like, okay, there's an opportunity. There is a pathway to be able to gain access. You don't have to limit your ideas and the size of your ideas. You were a hero, in that providing the funding for Reg Lewis, he had done something that really no one else had done. So we knew it could happen. What I appreciated was at that point you became the go-to guy. It's like, okay, we gotta get to Mike; you've got a pitch your deal to him, and you were open to it. I know your schedule is crazy and as busy as ever, but you still took the time to try to talk to us. You didn't get a straight no, you got an 'okay, here's what

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you need to think about. Here's some additional alternatives.' I always appreciated that from you. For me, it opened up my eyes and really helped me to try to build my approach to what projects I felt that I could get involved with.

I got more out of those meetings I think even than the people, in that for me, my feeling is we had to provide opportunity and hope to everyone based on ability. I always look for the individual who cared about people, had a heart, but was a leader. And that's what really struck me about you, Ken. You felt passion for what you're doing. As one of the leaders in real estate, and today looking over the Sears portfolio and developing it all over the United States, this is an industry that has really been hit by this COVID. You've seen many ups and downs in real estate over the years. Talk to us a little bit about how you see it today and how you see the future changing.

Obviously, we are in a down cycle at this particular time. But we've had other down cycles. It's really the first time that you've had challenges and down cycles on the financial side,

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on the racial side and health-wise with COVID. Real estate is directly impacted. Seritage [Growth Properties] is in a pretty unique position. It's only five years old and have acquired a lot of real estate for redevelopment. As you look at what we are attempting to do, there's a lot more of it not necessarily just coming to Seritage with our portfolio, but as you look at all the big box refills – J.C. Penny, Macy's, you name it – they all have excess real estate and they have to try to figure out how they're going to become efficient. If they're going to exist in a brick-and-mortar way, they have to balance that between what has been built on the digital side. We're at an absolute tipping point from what we are going to do and how the consumer

experience is going to be on the retail side. If you had to look today, any company that does not have a digital presence has got a problem.

And then that whole being able to go online and order whatever you want has become the way most folks prefer to shop. For us, taking the excess real estate and be nimble in terms of how you look in it, we're not taking that Sears box and the real estate, and by the way, Sears was uniquely positioned in that at the time they were the preferred anchor. They always got the best location to locate their store and they owned all the real estate. So,

the average sites are a minimum of 13 to 15 acres. Being able to come in and redevelop that those parcels doesn't necessarily mean the building has to stay. In some cases like in Santa Monica, it's safe because it's been designated a landmark. But you got a lot of options, from creative office to multifamily to retail. As I look at where real estate is going today, at least in that segment of the marketplace, being able to come in with some optionality, being able to really look at what it truly takes to convert these department stores that are going out of business, and taking that real estate and creating value is where the business is today.

I'd be remiss if I didn't say during this period I'm encouraged that I've never seen as many CEOs and the senior leadership within these companies, recognizing that from a diversity perspective, it's way to under-represented in terms of the minorities. Across the board, you're hearing leadership making serious commitments, which has gone ever since I've been in real estate business.

It's an interesting point I think you've made here. This is my, I believe 118th consecutive day of in our efforts to stop the side effects and stop medically the coronavirus at our various foundations and the Institute. In speaking to CEOs, I think I want to echo what you've said. The most progressive of those leaders of companies and their responses to what's occurred this year, is that they thought they were inclusive. They thought that they were doing everything. They thought that they had leveled the playing field, and now they realize they hadn't. And we're going to take action. It's an interesting environment Ken, that we're living in today.

You're in a business that is dealing with large companies who might be people that rent space, take space, professionals are our techs having to deal with city officials to get approvals from these things. Doing anything in Santa Monica, California is always a challenge. It's not exactly Austin, Texas, in quick approvals as to what you want to do in Santa Monica. Have you seen a change, either before this year or since, in people's reaction? Are you viewed as one of the world's leading real-estate developers and knowledgeable people in real estate, or are you viewed as an African American first as you interact with these people?

It's a great question. I've been at this for over 30 years. With some of the accomplishments including the projects that I've been involved in, you do get to establish a bit of a credibility throughout the industry. I don't think that when I walk into a room that people don't first and foremost see me as an African American and that's okay. Because I take on a responsibility to proving to them that I'm more than capable and understand the business. If they don't believe me, then here's a list of people that you can call that would vouch for my credibility. I took pride in really making sure that I understood the business,

whether it's putting the deal together, development and negotiating skill, the underwriting side of it and understanding what works and what doesn't.

There are times when he's you feel the bias. If I see that it's something that's going to get in the way, I'm not necessarily going to take the time to change the attitude. I'll just pull my tent up and move on to another opportunity if that's what it takes, because I believe that, and this is kind of part of the corporate conversation that takes place. I had this kind of this discussion when I was at Starbucks. There are people that are going to always have a certain kind of attitude. They're always going to bring a certain bias to the equation, and I'm not sure it's our job to change that box. It's our job to make sure that if they're within our companies, our respective

companies, that there is accountability within the four walls of that company. There are policies and procedures that are part of the culture where they know it's not acceptable to behave in an inappropriate way or to disrespect people or to not provide an opportunity.

But to your point earlier, I believe that the latest buzz word is unconscious bias. I think there's been an unconscious level of excluding people from opportunities

and excluding the fact that this is not a level playing field for most folks within an organization. I like to think that at Starbucks, as an example, while the early definition of minority was women and gay, and that's fine. There wasn't an African American or minority inclusion in that definition, so when you looked at the population base, that's what made it up. When I went there, and the relationship that I established with Howard [Schultz], it was literally started with questions of 'why couldn't he attract more African Americans?' And if he did, why didn't they stay, to starting with asking him a tough question, which that's the way I posed it to him, 'why don't you have any minorities on your board?' It wasn't one that he said, well, 'here's the reasons why.' There was more of a response that said, 'well, you know what, I hadn't really thought about it.' I carry that forward knowing that there are going to be some conversations that you have with the CEOs and they're completely receptive; the bias is not there, it's just not top of mind. The question is, once it becomes top of mind, which is what's taking place right now, are they going to embrace it and are they truly going to be the leader that is going to set the direction and set the policy? Because if it doesn't come from the top of the organization it's not going to be successful. It's not going to be sustainable. As things die down in the current the environment that we're in right now, you won't see the types of changes, the results won't be at the level that we all hope for.

“Fortunately for me, I had a family that basically instilled a sense of fearlessness in me, and that there are going to be obstacles. You have to keep working hard. I saw it in my parents. I saw it in my cousins, who led a lot of the civil rights efforts in Louisiana. Those were the examples I grew up with.”

Ken, what advice would you have for young people? They may have found their internships canceled. Maybe they've been told they still have that job, but we're going to start a year later. What would you be doing if you were back in your teens or twenties here to try to maybe upskill or how would you go about it today? What advice would you give them?

Fortunately for me, I had a family that when I grew up, basically instilled a sense of fearlessness in me and that there are going to be obstacles. You have to keep working hard. And frankly, I had a chance [when I met T. Boone Pickens] at one of your conferences, that someone had asked a question about the difficult times and how does he look at it? And I remember him saying that he just puts his head down and keeps pressing until the glass breaks. I don't know if you remember that comment from him, but it's been with me from that day forward.

And to the young people today, that sense of fearlessness, I saw it in my parents. I saw it in my cousins, who led a lot of the civil rights efforts in Louisiana with the restaurant sit-ins and starting CORE [Congress of Racial Equality] in New Orleans, and subsequently the Lombard vs. the State of Louisiana landmark case that was one of five cases that kind of broke segregation down. I was part of desegregating the whole state of Louisiana. Those were the examples I grew up with. And so really being in a position where you look at this, they're always going to be obstacles. This is one that you just got to keep pressing it and be smart about it. Integrity has got to be a big part of how you look at how you develop yourself and that sense of honesty, the hard work. We'll all get through this.

Well, Ken, I've appreciated our friendship over the decades and I look forward to seeing what we can do together in the future. I really see you as a role model for the world and your practical approach, but pushing forward. That fire and desire to stand up for what you believe in has been in your family for multiple generations, and I look forward to seeing your grandchildren carry that on.

Michael, you know I appreciate you and our relationship. I appreciate the opportunity to have this conversation with you.
