As of June 30, 2021, ESRT represented 6.2% of the Longleaf Partners Small-Cap Fund.

Gwin Myerberg: 00:06 Hello and welcome to The Price-to-Value Podcast with Southeastern Asset Management, where our global investment team discuss the topics that are most top of mind for our clients from a Business, People, Price point of view.

Gwin Myerberg: 00:17 We at Southeastern are long-term, concentrated, engaged value investors, and we seek to own high quality businesses, run by capable people at a discounted price to intrinsic value or P/V. I'm Gwin Myerberg, Global Head of Client Relations and Communications.

Gwin Myerberg: 00:33 On today's podcast, Southeastern's CEO and Head of Research Ross Glotzbach interviews Tony Malkin, Chairman, President, and CEO of Empire State Realty Trust, which we own in our US Small-Cap Fund. They discuss the company's unique IPO experience, ESRT's leading environmental efforts, and the impact of COVID on the business and on New York City and how Tony and his team have navigated this challenging environment. We hope you enjoy their conversation.

Ross Glotzbach:	01:01	So, our guest today is Tony Malkin. Tony is Chairman, President, and CEO of Empire State Realty Trust. Tony joined ESRT's predecessor entities in 1989, and we at Southeastern got to know him when we first invested in ESRT back in 2013. We were impressed with his track record then of building value at the Empire State Building and other entities.
Ross Glotzbach:	01:27	As we have gotten to know him since, our admiration has only grown, and we were glad to be able to invest with him at ESRT again when COVID hit last year. Tony has been a leader on several fronts in the real estate industry. On energy efficiency standards, he has worked in partnership with the likes of the Rocky Mountain Institute, the Urban Land Institute, the Clinton Climate Initiative, Johnson Controls, and JLL. Tony also is involved with several organizations that help promote innovation and/or sustainability, including the New York City Department of Buildings, the Real Estate Board of New York, and the Partnership for New York City's Innovation Council. He is also on the committee encouraging corporate philanthropy and the building committee of the Metropolitan Museum of Art.
Ross Glotzbach:	02:16	We are looking forward to talking about a variety of topics today. Welcome, Tony, and thank you for joining us.
Tony Malkin:	02:23	Thanks so much for having me, Ross, and I just want to say that we probably would not have had as successful an offering back in 2013 without the participation of you and your firm. I'll never forget the first meeting I had with you and Mason Hawkins, and we consider it a privilege to be able to have you as an investor. I'm delighted to be here today to speak to you and whoever wishes listen to this after we're done.
Ross Glotzbach:	02:54	Well, thanks so much. Let's get on into the questions then, I guess. So, starting at the beginning, I understand

that you grew up in the real estate industry as your family was heavily involved in it, but how did you manage to forge your own path and how did you get to what became ESRT?

Tony Malkin: 03:14 Well, that's interesting, Ross. I had a lot of different experiences in my family. My father and both of my uncles and my grandfather on my mother's side were all involved in real estate at one point or another, and we would do family holidays, Thanksgiving, Christmas, Mother's Day, Father's Day, and my grandfather's birthday, and it was inevitable that we would have conversations about real estate.

Tony Malkin: 03:41 Probably the most important thing that ever happened to me was in 1984. My mother said to me that my brother had begun work with my father and my grandfather in the family business, that he was older, and he would be in charge, and I would just have to deal with it.

Tony Malkin: 04:03 So, my response to that was that I try something else. I actually started out in the private equity business with a firm that ultimately became JP Morgan Capital Partners and then CCMP, but when I started, it was Chemical Venture Partners, a division of Chemical Bank. It was probably one of the best things that ever happened to me and the ability to forge my own path was to go to work for somebody else and frankly not have a situation in which I referred to questions that I did not like with dad. We were well past that by the time I joined up.

Tony Malkin: 04:47 It started rather precipitously because my grandfather died December 10, 1988. Anyone who is a student of investing history will remember that, really, first quarter of 1989 was the beginning of the savings and loan crisis, a tremendous problem for real estate nationwide and a big problem for real estate in New York City. A big problem for us.

Tony Malkin: 05:13 My brother and my dad decided to split up. My brother has gone on to be extremely successful in his own activities where he has been an incredibly strong entrepreneur. I joined up in January of 1989 and went

to work. It was tough times, tough work, and I forged my own path candidly through resolving issues that arose at the time of my grandfather's passing, issues we had with the savings and loan crisis, went through that with issues we had with Mrs. Helmsley who was my grandfather's partner, Harry Helmsley's widow, and then worked things out with her and with her estate, which ultimately led to our consolidation and public offering.

Tony Malkin:	06:04	A lot of people think it was an IPO. Not that many people realize it was just a giant secondary of her estate's ownership. Really, 95 plus percent of the offering was just the sale of her estate's interests, which were required under her will. By that time, I was pretty much on my own path.
Ross Glotzbach:	06:27	Yep. Well, do you want to talk anymore about that IPO because it was so unique and we at Southeastern are basically never even considering IPOs, and as you said it wasn't really one, but it was... Why did it have to happen that way?
Tony Malkin:	06:44	So, when Mrs. Helmsley passed, we had achieved a very peaceful and constructive working relationship with her, which was quite interesting after really the better part of a decade of litigation, seven years of litigation between ourselves, the entities we represented and with her.
Tony Malkin:	07:07	The one thing I'll say about Mrs. Helmsley is she was smart, and she recognized smarts. I'd also point out, by the way, that she had a wicked sense of humor. When she passed and the will was read, it was disclosed that she had given an instruction to her executors that anything in which she owned more than 1% of that entity had to be sold. I've got to be honest, it was extremely disheartening. Peace broke out as I like to say, concluded in August 2006. A long negotiation that was completed in pieces, in parts.

Tony Malkin: 07:57

Then she died in 2007, I think, just about then. I think that was about it, and to have done all that work, and then the realization that the sale of her interests might be to parties who are adverse to us and to the investors who we represented. She had blocking positions in a couple of the assets including the operating lease of the Empire State Building. We don't think about that today, but at one point, the Empire State Building's ownership was actually divided up into three pieces, a fee position, a master lease and an operating lease.

Tony Malkin: 08:35

So, what ended up occurring in 2007, she passed, and we began to discuss what to do, and then the great financial crisis of 2008 occurred, and the executors felt that they had the leeway not to sell in an adverse commercial condition. 2010, as things really began to improve, after a lot of discussion I said, "Look, there are five of you. Each of you has a significant risk with this several billion dollar charitable trust to which virtually all of Mrs. Helmsley's assets went."

Tony Malkin: 09:22

If you run a charity in New York City, you are supervised by the attorney general. If you're responsible for an estate in New York State, not just New York City, New York State, you are supervised by the attorney general.

Tony Malkin: 09:41

So, the five executors had a sixth partner, and that was the attorney general of the state of New York. They were quite concerned and believed that they could do something that could get them in hot water. I presented to them and convinced them of the fact that their best way to fulfill their duties as trustees was to sell at an arm's length transaction in an IPO or fully liquid stock. They could never be condemned for sale in an arm's length in a public market.

Tony Malkin: 10:23

That began the long process, which required dozens of LLCs and sub-LLCs all to vote for a consolidation, a roll up, and then the IPO. It was a three and a half year process. I had the distinction of one of the greatest M&A attorneys of all time, Arnie Jacobs. Arnie Jacobs commented that it was the most complicated transaction in which he had ever been involved. John

		Weinberg, who was then co-head of Investment Banking at Goldman Sachs and is now the head of Evercore, made the same comment.
Tony Malkin:	11:04	As far as I know, it's the only one with which I've been involved, and we acquitted ourselves very well for our investors, both the existing investors and the ones who bought in. That's where I feel the best. The whole goal here was to protect our investors, and we felt very good about that.
Ross Glotzbach:	11:21	Well, we were glad to get to participate and we'll talk a little bit more about what happened after that later, but I did want to go back to how you don't have this just pure real estate background. And you're definitely extremely aligned with ESRT shareholders as an owner/operator because you and your family have a significant stake in the company, but you’ve also got a family office and a history in private equity. How does having that kind of background help you more as a real estate operator and investor?
Tony Malkin:	11:55	I think we deliver tremendous benefit to our investors through that process, and all our stakeholders, including our lenders. The way we look at tenants is we look at businesses, we don't just look at what the broker delivers. That’s paid off tremendously for us I'd say in really three ways.
Tony Malkin:	12:20	The first is that since we went public in October of 2013, we've had nearly two million square feet of new leases signed, which are expansions of existing tenants to whom we had done a prior lease. Not just renewals, but expansions.
Tony Malkin:	12:43	So, when we underwrite these businesses, we look at two things. One, very importantly, we don't look at discount rates as a spread over interest rates. We look at discount rates as the predictability of our receipt of future cash flows.
Tony Malkin:	13:04	Number two, we try to make a determination how likely is it this tenant will be able to afford to renew or expand

with us as we continue to improve our properties and raise our rents. We don't always get it right. We had a bankruptcy just this past quarter. However, we knew the tenant had issues, and we had worked constructively with that tenant to reduce our exposure to it and its exposure to us.

Tony Malkin: 13:33 However, I really do feel that this additional way to underwrite, this additional pathway to underwrite our tenants has really been demonstrably better for us than if we didn't have it. Perfect example, we had a tenant take a full floor at the Empire State Building many years ago before we were public called Brennan Beer Gorman. It was an architecture firm.

Tony Malkin: 13:55 We were thrilled they took a full floor. We were in the process where we work to reduce our number of tenants and suites in the Empire State Building around 752 to well under 100, which it is now. We're more occupied now.

Tony Malkin: 14:09 We looked at those tenant's subtenants as the architecture firm had gone into more and more trouble in its sublease space. We looked at all the different subtenants to whom we might go to say, "Can we keep you in the space?" One after another of random folks really not useful, and then the last one as the broker said to me, and then there's this company called LinkedIn.

Tony Malkin: 14:39 My eyes opened up widely and I said, "LinkedIn? What do they have?"

Tony Malkin: 14:46 "Well, they have 3,500 square feet."

Tony Malkin: 14:49 I said, "Well, that's a real business. Let's talk to them."

Tony Malkin: 14:52 The broker said, "No. They're going to end up in the Googleplex over by Chelsea Market." This is during the great financial crisis.

Tony Malkin: 15:01 I said, "Don't be so sure about that."

Tony Malkin:	15:03	I found my way to the head of LinkedIn through another investor with whom we invest through our family office. That person, the head of that company got me in touch with this head of real estate and I sat down for a cup of coffee, which, of course, is funny because anybody that knows me knows I haven't had caffeine for 30 years.
Tony Malkin:	15:26	I went over with him, give him the hard sell. We're doing energy efficiency, sustainability. It's a great building. We're putting in these amenities. Fella's name is Adony Beniares. He's gone through a few other growth companies since then. He says he's retired. I don't believe he'll ever retire. I think he'll be back in another one.
Tony Malkin:	15:45	He looked at me and he said, "I know about what you're doing. I've got a series of small sublets around New York. We have to consolidate. I think the Empire State Building is the perfect place for us to do this."
Tony Malkin:	15:59	The result is that they now lease over 500,000 square feet in the Empire State Building. It's just to know, to be able to distinguish and understand the businesses is so important.
Ross Glotzbach:	16:13	Yeah. No doubt. Well, another good example where I'd imagine this way of thinking helps is with The Observatory, the Empire State Building. It's such an interesting asset. It wasn’t fully optimized when you got operating control of the building before ESRT came public. To run it right, you’ve got to blend at least a few things. You got branding across a variety of media. You got international travel considerations. You got the logistics issues around getting millions of people through the building each year, and numerous other factors.
Ross Glotzbach:	16:47	So, when you first got familiar with this asset, what did you focus on the most to get it where it is today, and what do you think will be the key factors driving its success when international travel opens back up?

Tony Malkin:	17:01	So, the first thing I want to say is that we love The Observatory and we love it because it's another leg. So, for instance, on The Observatory, as we improve our business as we did in the last quarter from the COVID reduction in travel and business. By the way, we reopened in July of 2020. One of the first attractions in New York City to be given the permission to reopen, and that's thanks to our indoor environmental quality measures and standards, which we may get to later or not.
Tony Malkin:	17:44	When we see things pick back up in the economy in The Observatory, it flows right to the bottom line. There's no free rent. There's no wait for the lease to commence. There's no commission, and we get our price. So, we love that business. We think it's terrific, number one.
Tony Malkin:	18:04	Number two, the big difference between what we do now and what we did when we got control in August of 2006 is that the way things were approached at the Empire State Building Observatory before, was that you paid a toll. You want to cross a bridge, you pay a toll. By the way, you could take another bridge and pay a different toll or maybe you find a bridge where there's no toll at all.
Tony Malkin:	18:32	We wanted to take it from where you pay a toll to something where you really want people to participate. We began work on this early on. We started to work with the people who do Disney attractions. We came up with what I'll say is an old-school, an older school, phenomenal experience, by the way, about the Empire State Building, its history, the Empire State Building's position in movies. It was all very physical. We presented this to Mrs. Helmsley or to her representatives, and they said no.
Tony Malkin:	19:15	Now, number one, their decision at the time was not correct. However, the bottom line is that by the time we got around to doing it ourselves, on our own after we had gone public, the world had changed so much that we ended up with a far more engaging, electronic, interactive, visually immersive with green screen,

galleries with the actual workers, actors as workers constructing the building. Things we never could have done if we had done the first piece.

Tony Malkin:	19:56	So, what we've done is we spent $165 million to create something, which based upon our research with our millions of customers, is designed to deliver to them what is in the DNA of the world. Why does the world, every country, love the Empire State Building? Why when you write a postcard or a letter to anyone who's in the Empire State Building put a stamp on it and just write her name on it with no address, no city, no country, will it get delivered the same as any piece of mail? It is worldwide known. It's the most famous building in the world.
Tony Malkin:	20:36	When we understand how it represents the universal dreams and aspirations and begin to interview people and understand what that means, we did that in nine different languages and 13 different cultures to come up with what we actually represented. We created a new entrance, a separate entrance to the building, which cut by more than half the number of people who go through our lobby. We restricted traffic enough so that our tenants can actually use the 5th Avenue entrance to the Empire State Building.
Tony Malkin:	21:10	All our lighting ceremonies are done in this new entrance. Katie Ledecky was just there today, very exciting, with her two gold and two silver medals. I know this will be rebroadcast at another date, but on August 12th, 2021, that's where she was and when she was there with dozens of members of the press, and it helps build our brand.
Tony Malkin:	21:32	Then we finally are at the point where we're able to advertise not just the Empire State Building as an icon on the skyline of New York City, but as a world-class attraction and through every single visitors' experience, we also talk about what goes on in the office building.
Tony Malkin:	21:52	We talk about the tenants that we have in the office building. We have what we call the peep holes where

they get to look at and actually see images of the actual offices in the building. We talk about our energy efficiency and our indoor environmental quality. We boost our brand and we boost the Empire State Realty Trust brand as well.

Tony Malkin: 22:14 So, we love the asset. We love the opportunity to rework it and the come back from COVID right now, we have our highest per caps, and that's our revenue per individual, in the history of our operation of the building.

Tony Malkin: 22:29 One of the things we did during COVID was we had to close The Observatory for a period of months, only about three, but during that period of time, we began to rework from ground zero. We've never had that time before where it literally closed everything that we do, including the point now that you don't enter the building without a reservation. That way we control crowds, we can control our price mix. We give everybody a better experience. We think that this is the future.

Tony Malkin: 23:01 A lot of observatories, Ross, will open up in New York City, have opened up in New York City, and we come down to the point of we are the authentic icon of New York City. The other observatories offer you a chance to look at us and then also everybody has 80% of the visitors of other observatories visit us as well because we are New York City.

Ross Glotzbach: 23:24 Yeah. Well, it's a phenomenal asset. I think it's underrecognized by a lot of just straight real estate investors who are out there for a dividend or something. We’re glad we get a shot to own it with you.

Ross Glotzbach: 23:37 Another thing that we feel is underrecognized at ESRT is that you were prioritizing what's now known as ESG well before others were putting it in their presentations and talking about it. You’ve got a great history with green buildings, a commitment to indoor air quality as you've already mentioned some.

Ross Glotzbach:	24:00	So, how are you all so early to this? How do those initiatives like this year becoming the nation's largest 100% user of green power in real estate? How's that developed over time?
Tony Malkin:	24:15	You know I have to give credit where credit is due. For the inception of the idea, candidly I have to give credit to President Clinton, who through his Clinton Foundation C40 Cities Initiative highlighted the importance of energy efficiency and buildings to reduce greenhouse gases. The fact that buildings are the largest consumer of power in cities, and New York City is probably close to 80%, a fact that nobody really knew. Nobody had made that connection, number one.
Tony Malkin:	24:56	Number two, Ira Magaziner, who was then the person on this project for the C40 Cities, when I offered to do another building candidly that wasn't as well-known and not as visible, emphasized that if we make a change at a smaller building it won't matter, but a change at the Empire State Building, it will get worldwide attention.
Tony Malkin:	25:20	Amory Lovins of the Rocky Mountain Institute, who taught us all about design integration and how when you spend money, if you spend it in the right way on things on which you were already going to spend money, it doesn't cost that much more to be energy efficient and the payback is incredibly short.
Tony Malkin:	25:45	Then I could go through the list of a whole lot of people leading right up to our current Senior Vice President and Director of Energy and Sustainability in ESG, Dana Robbins Schneider, who helped conceive the project and executed it. And has taken all of the things we did at the Empire State Building and rolled them out through our entire portfolio. But it started, Ross, with our desire to differentiate the Empire State Building, which candidly was pretty rundown on the inside as far as the tenant base, the type of uses, and we decided to differentiate ourselves with energy efficiency and with indoor environmental quality.

Tony Malkin:	26:27	I'm an asthmatic, so I had a personal interest in the thought of, "Wow. We can get rid of volatile, organic gases, and we could make it so you can breathe without detriment to your health." We were very early on with Professor Joe Allen to understand the importance to reduce carbon dioxide in interior spaces, how carbon dioxide is tremendously deleterious to brain function.
Tony Malkin:	26:58	So, when you put all these different things together, it was actually we wanted to rebrand the building, and in the process we started a movement. So, it's pretty exciting. We are the leaders in this area. I do chair the state Roundtable Sustainability Policy Advisory Committee. That’s the umbrella lobbying group of the real estate industry in Washington D.C., and the only commercial landlord on the Local Law 97 Advisory Implementation Board for New York City, and that is a greenhouse gas reduction bill that was passed by the city council a year and a half ago. We remain very involved in policy, and we try to inform policy with practice because policy that dictates practice oftentimes can be wrong.
Ross Glotzbach:	27:43	Yeah. Well, so looking ahead, what do you think will be the biggest challenge for ESRT to meet its stated commitment of net zero emissions throughout the portfolio by 2035?
Tony Malkin:	27:58	Look, we could easily buy offsets today. That's one thing about which we need to be clear. We could easily buy offsets today and effectively call ourselves net zero carbon emissions. That said, however, the fact is that what we can't do is really declare victory until we’ve reduced onsite our carbon emissions by as much as we possibly can.
Tony Malkin:	28:29	So, we have been leaders in this work with the New York State Energy Research Development Authority coordinating with other landlords, a playbook to how we can reach the best we possibly can reach without any non-economic result. I think that's the important thing from our perspective is that our focus in everything we do, don’t want you to think we waste

investor's money. It's about what can you do where you can make an investment and get a return and get a better result at the same time?

Tony Malkin:	29:05	So, we have a pathway. We'll release some work, which we've had underway for almost a year now in partnership with the New York State Energy Research Development Authority and a few other landlords who we coordinated in New York City. It really lets you know how far you can get onsite through investment and return orientation.
Tony Malkin:	29:31	It's a big challenge. We, of course, started with the Empire State Building, but also with 1333 Broadway, and we have underway right now 250 West 57th Street, 1359 Broadway, and 1400 Broadway. We'll have all of our buildings done by the end of the first quarter, maybe second quarter of 2022 as far as the pathway. Then we will build that into our capex programs over time, and we'll utilize Amory Lovins's lessons about design integration as to how we do that while we make investments that we were to make anyway, not to tack it on, but make it part of what we do and make it a much shorter payback for our investors.
Ross Glotzbach:	30:11	Got you. You touched on earlier the various things you're involved with. How has walking the walk on this stuff allowed ESRT to influence policy, and how are you all in a good position to deliver against the LL97 requirements, which you might need to explain a little bit what that means for some of our listeners?
Tony Malkin:	30:34	Well, on policy, again, we take all of our practices, and we inform policies. So, I actually had a bill. I have it on my wall behind me, which, of course, no one can see because this is a podcast, but the front page of a bill signed by Senators Portman and Shaheen that was passed in August of 2015 that was specific to energy efficiency in buildings, and with kind words from them on that we were very instrumental. I was very instrumental with the real estate round table to get that passed unanimously in the US Senate. People say that things can't get done. We did.

Tony Malkin:	31:09	I think, really, the important thing is for our investors to know, Local Law 97 will fine people who produce greenhouse gases over certain levels with the first level set as of 2024, and we will pay no fine as of those levels.
Tony Malkin:	31:27	We have a clear pathway as to what we need to accomplish for the levels that are required by 2030. I think where we really start to get into trouble at the levels that are required in 2035. Part of the way we'll influence policy is to work with the lawmakers and point out to them, while aspirationally, we agree with them and they may have had some very good thoughts, where they got it wrong. So, we'll work towards that. We've got some pretty good runway within which to do that.
Ross Glotzbach:	32:01	Good deal. Another ESG item that's been growing in importance are these ESG ratings agencies like an MSCI and you had an upgrade there at the start of the year, but your overall rating might still be a little below where you want it to be long-term. How do you balance the long-term virtues of things like super voting shares, which the company has, with the way that some of those things can just be viewed negatively when you're going down and checking a box on the governance part of ESG?
Tony Malkin:	32:34	I think it's terrific that you pointed out ESG. A lot of people just think that that's environmental, but it's environmental, it's social, and it's governance, part one. Part two, a lot of folks feel very strongly that the mere fact that you have super voting shares requires a knock against you. You missed the box check as you say or you checked the wrong box.
Tony Malkin:	32:58	The origin of our super voting shares has to do with when we rolled up all of our partnerships, LLCs, in the consolidation, which occurred simultaneous with our IPO. In order to make it so that they did not have a tax impact, we created a class of shares into which they could transfer without taxes. That was essential to our ability to get their vote because, if we turned the transaction into a taxable event, we would not have

gotten the vote. A lot of credit to our long-time General Counsel Tom Keltner, who's the one who conceived of that technique. All of the accountants and lawyers could not figure it out. He did.

Tony Malkin:	33:53	That said, our investors had certain votes prior to the IPO and the conversion into these other interests would deprive them of any vote. So, we came up with a concept that for people who wanted to, they could instead of having a completely non-voting interest, they could convert for every 50 shares of non-voting interests, which they were granted, one, into a super voting share that counted for 50 votes, and those super voting shares only exist so long as they own them. They can't be sold.
Tony Malkin:	34:38	So, as soon as you sell a class B share as we call it, it immediately becomes class A. It becomes regular. That meant that they could, well, they'd only pay 5% of the tax they would otherwise experience if they wanted to vote.
Tony Malkin:	34:55	So, if we look at this, it's very interesting. Over time, close to 50%, shy of it, probably 47% of our non-voting original partner or LLC member participants in the IPO have converted to class A voting shares. There are still some who remain, namely my family, and we represent about 18.5% or so of the vote.
Tony Malkin:	35:23	That said, the super voting shares, I can't disagree with the concept that somebody who by virtue of their foundation grants him or herself control of the company without regard to their economic interest. I don't believe that's correct. Our strategy was based around to give everybody who had a vote, a vote and no tax effect. So, an uphill climb and over time, frankly, it goes away because we have more and more of our original investors sell their interests, their shares, and the shares become non-voting. It becomes less and less of an issue.
Ross Glotzbach:	36:00	So, after Southeastern invested the first time at this IPO or big secondary, whatever you want to call it, given its

weird dynamics, we did make the mistake of selling too early, but after we moved on that first time, what was your reaction when the sell side and others wanted you to buy your own stock at $20 a share?

Tony Malkin: 36:26

One of the things on which we pride ourselves and our CFO Christina Chiu likes to talk about our capital allocation strategy. When do we invest in our properties? When do we acquire additional properties? When is it better to buy our own stock? We do not believe that we should buy our stock to support our stock price. We believe we should buy our stock when we think there's a compelling story that once you buy your own stock, rather than invest in your properties or buy additional properties.

Tony Malkin: 36:57

Don't forget the value of a great balance sheet. That is something we have at Empire State Realty Trust, a bulletproof balance sheet with a lot of liquidity and low leverage. That gives us flexibility to make moves when we want to make them. We felt that we had folks who complained that we should buy back our stock at a price at which candidly we didn't think that story was compelling versus our other potential uses of our balance sheet. That doesn't mean it wasn't a smart thing for investors to invest, but they didn't have to weigh growth because we think about the scale of our business all the time, to think about investment required in our own properties, and to own office buildings, particularly in today's cycle. It's expensive. You need to be able to spend a lot. You need to have a balance sheet to allow you to do that or versus our insurers.

Tony Malkin: 37:56

So, look, we had complaints at $20, $18, $16, whatever you like. In the end, as we have disclosed, we bought close to $150 million worth of shares at somewhere in the $8.30 range. We've made a lot of money for our investors through that process, and we continue to weigh those judgments. External growth? We've done most of the reinvestment in our portfolio that is required, and then to repurchase our own shares. We look at that every day, and we have metrics at which we look and that's the way I'd respond to that.

Ross Glotzbach: 38:32 Yeah. We'll talk a little bit more about capital allocation in a little bit, but we got to talk about COVID because we can't have a conversation like this without discussing its impact. When did you really get the sense that the pandemic would change things, especially within real estate and tourism?

Tony Malkin: 38:53 We had our board meeting late February of 2020, and at that board meeting, I announced that I really thought we had a crisis on our hands potentially. I did two things. Number one, I told the board that we had already pulled out our crisis response plan, and we were prepared to roll it out. The second thing I did is I went around the board and I asked each board member. We have a phenomenal board, very diverse. It's not a bunch of old real estate people. As the Attorney General of the state of New York likes to say, actually, it's something she likes to say, she said it once and she's not upset with me and I repeat it, but she's so correct.

Tony Malkin: 39:39 She said, "Your industry is pale, male, and stale. If you surround yourself with people who are similar to what's in your industry, you have a very narrow view."

Tony Malkin: 39:50 So, because I started out outside of real estate, I've always valued alternative views. I asked everybody, "What is the number one course of action you would recommend based on your experiences, whether or not it was the S&L crisis, the Dotcom Bubble burst of the early 2000s, the Great Financial Crisis? If things really go south here, what would you suggest?"

Tony Malkin: 40:20 We solicited ideas from everybody, and the first one of them was preserve the balance sheet, and test whether or not the line of credit really can be drawn upon before you make decisions. Because that happened during the Great Financial Crisis. People had lines of credit and they couldn't draw on them. As it happened, as we know, there's massive fiscal and monetary stimulus that followed.

Tony Malkin:	40:50	So, we drew on our balance sheet. We actually got to the point where we realized we have no taxable income because of all the money that we have invested in our properties, and the fact that The Observatory was closed. So, we actually suspended the dividend for a few quarters.
Tony Malkin:	41:06	Fewer than we said we would in the end, we recommenced the dividend before then. So, anyhow, for me, Ross, starting on my own in private equity, not in the family business, Savings and Loan Crisis, litigation with Mrs. Helmsley, an absolutely, tremendously difficult consolidation, which led to an IPO. I have found that if you presume for a moment that bad things will happen, you'll get more pleasant surprises than if you just go along thinking that everything will be benign and everything will be fine.
Tony Malkin:	41:46	We prepared and it was really that fourth week of February, before really everybody figured it out in the United States, but we watched what happened globally and we said, "This could really be something."
Ross Glotzbach:	41:58	Yeah. Well, you're so rare to both buy in your own shares and suspend the dividend, and that just was the right thing for long-term value per share. How hard was that decision? I mean, because your peers were either trying to sustain some unsustainable dividend or they were too scared to buy their own shares. I mean, what am I missing?
Tony Malkin:	42:23	Don't forget as a REIT you must distribute over 90% of your REIT taxable income.
Ross Glotzbach:	42:30	That's right. Yep.
Tony Malkin:	42:31	So, others don't really have a choice. Many of them don't have a choice. They have to make distributions, and if they don't have the cash, they have to distribute in shares. That's part one.

Tony Malkin:	42:42	Part two, the thing that I've learned is there are no hard decisions. There are things to which you have to give a lot of thought and do a lot of research. You have to be prepared that the decisions may be unpopular.
Tony Malkin:	42:59	To me, there is no such thing as a hard decision. You just have to be prepared for everyone not to be happy with you. I agree with what you said. I think that we made the right decision to suspend the dividend.
Tony Malkin:	43:14	By the way, Christina Chiu left Morgan Stanley after 18 years and began as our CFO the first week of April 2020. She came to the office every day all through COVID. She claims it's because she had two young girls at home, and she wanted some peace and quiet. I think it's because she felt she needed to be on the ground.
Tony Malkin:	43:36	It was Christina who early on in the first or second week turned to me and said, "We should really give consideration as to whether or not we should pay a dividend. It was quite something by the way for our board. There was a lot of discussion around buying back our stock. I feel we had the tough discussions, and we made the easy decision.
Ross Glotzbach:	44:03	Yeah. Well, you mentioned the strong balance sheet you came into COVID with and how you've already used some of that capital to buy shares at a good price. Have you been surprised by the lack of M&A that you've been able to do so far, or did you assume going into this maybe people are going to want to see how things sort out before they're willing to do a deal?
Tony Malkin:	44:32	So, I would just tell you that in November of 2019 is when I decided it was time to build out an acquisitions team, the first time that we had made that decision as a public company. We're done or nearly done with all the reinvestment in our properties, and I said, "Okay. Now is the time to be prepared to grow. We'll have to grow at the market, whatever the market is, be prepared to do so."

Tony Malkin:	45:03	So, I will tell you that early on our thought was, "Let's start our work." So, Aaron Ratner, who is our CIO, came to us from TPG, built out a team. We have been very active in efforts to expand the business over the last 12 months. As far as M&A, I think we have seen actually the beginning of movement in M&A more broadly on a corporate level in the REIT world. There've been, I wouldn’t say a flurry given the typical pace. However, there've been a good number of M&A transactions announced in the last 12 months. We also look at that quite seriously, too. For me, to say anything more than what I've just said would probably result in a phone call or someone coming out through my door to say I can't say anymore.
Ross Glotzbach:	45:59	All right. We'll stay tuned. So, you're going through this incredible time last year where each day feels long and all that stuff that we all know. When, though, did you start to get the sense that New York City is going to come back? You mentioned earlier getting to be the first attraction to reopen because of your indoor air quality and your credibility on that front, but, I mean, that was in July of last year. So, when did you start to get the sense that we are going to come out on the other side of this thing?
Tony Malkin:	46:41	Well, look, don't bet against New York City, number one. Number two, don't bet against the importance of collaboration, the importance of team building, the importance of training. Don't confuse an environment in the stock market, in debt issuance, in private equity investment, and corporate M&A, which right now has lawyers and bankers and private equity folks. Absolutely flat out don't confuse something which is caused by massive combined coordinated fiscal and monetary stimulus and record low interest rates with “normal.”
Tony Malkin:	47:26	Normal is people need to get together, they need to see each other, they need to talk, they need to be able to interact. Grant Hill is on our board. Grant Hill, of course, the Vice Chairman of the Atlanta Hawks, and one of the greatest basketball players of all time. He came into the office for the first time a few months ago in New York,

		and he looked at me and he said, "You're taller than I thought you would be."
Tony Malkin:	47:49	I said to him, "You're shorter than I thought you would be."
Tony Malkin:	47:51	We hadn't seen each other in the flesh since he joined the board. Until you see the full body, you lose the hallway validation. You lose all these other things. There's no question there will be changes in how things are done.
Tony Malkin:	48:04	What I really do also, Ross, is I stay in touch with our biggest tenants. I try to stay in touch with companies in which we're invested, who aren’t even tenants of ours, who I think represent thought leadership. Those people tell me that we want people back in to build teams, to teach, to learn, to share, to collaborate, to innovate. Frankly, if New York City were not to bounce back, I don't think any place bounces back.
Tony Malkin:	48:42	So, we have a road ahead of us. I'm not unduly optimistic. I'm not completely immune to the issues that are ahead of us, and as I like to say and people say, "Wow, things look better for you," I said, "Yes. We're out of the sewer and we're back in the toilet." My goal is to get out of the toilet and back into the bathroom and, hopefully, back to the dinner party. In the meantime, we make our progress, we keep our balance sheet strong, we build our team, and we push forward.
Ross Glotzbach:	49:10	Well, it was just amazing how consensus hated by many on Wall Street, your company was last year, and we were trying to buy as many shares as we could. We ran up against some ownership with it and we were ... I'm sure you remember working with the board to try to get to buy more and then Pfizer day hit, and you're a little more loved now, but like you said, we got a ways to go ‘til where you can be.
Ross Glotzbach:	49:39	So, this is a broad overall one, but what have you learned about leading a public company from the past 18 months since all things COVID got going, and how do

		you plan to have things different in the future at Empire State?
Tony Malkin:	49:58	So, it's always an organic process for me. You learn, you redeploy, you learn, you redeploy, you learn, you redeploy. People comment to me how tough it must be to be the head of a public company and my comment is it's a lot easier than my prior life trying to hold together dozens of unrelated, but sometimes co-owned, limited partnerships and LLCs.
Tony Malkin:	50:23	I would say the same thing I said, which people are the most important thing you've got, number one. Number two, don't forget that when you hire A people, they beget more A people. You may have some people who lose their nerve, lose their energy, who don't grow and you have to do what's best for the organization. What's best for the organization is what delivers value and preserves value for your stakeholders.
Tony Malkin:	50:57	So, the beauty to be a public company CEO, candidly, is you must make the best decisions for your stakeholders. That's a huge benefit from being a family company, huge benefit. I would say also that as we move forward, what you really also learn is there are people who run to the fire and there are people who run away from the fire.
Tony Malkin:	51:23	Now, I don't want people who would like to run through the fire, not working for me, but people who run to the fire. You want people who show up. We have such a great team at Empire State Realty Trust. Our property managers never left the buildings. Our people, it's just a higher level. You work with your team and then you have to improve constantly. You either are passing or you're being passed, but there's never an opportunity to stay in place. It doesn't work that way. Why would you want to anyway?
Ross Glotzbach:	52:02	Yeah. That's a good note to end it on the business side of things. I'll ask you just one personal question. What are some of your favorite things to be doing with your family in New York City now that we’re into 2021 here?

Tony Malkin:	52:20	Well, I will just tell you that I ordinarily make no comment about my family. Its number or its duration. I'll tell you about my more broad family. The great thing for us has been to be able to see our broad family and safety even during COVID and be able to be together. Incredibly fortunate in that regard.
Tony Malkin:	52:45	With my own family in New York City, I will just merely say that probably one of the most fun things that we do, yes, we'll go to a ball game. I'm not a huge baseball fan. My kids are baseball fans. Our kids are baseball fans. We'll do that, but we do work with... look at going to museums. That's always fun. But we have restaurants, which we'll call our kitchens, which are our regular go-tos, and there is nothing like a meal indoors or outdoors as the case may be, with our family. When we get together, we have a really diverse group. I am blessed with an amazing wife with whom I will celebrate in just 15 days my 34th wedding anniversary.
Ross Glotzbach:	53:34	Congratulations!
Tony Malkin:	53:36	Thank you. Been together since 1982, dating, not married back then, and two wonderful sons, who are wonderful young men. The chance for us just to be together and share meals is probably, because we all go off and do our own things in individual ways. We do some things together. Sometimes it's golf. Sometimes it's a swim. Sometimes it's a bike ride. Sometimes it's some other sport, but we actually sit down and break bread together. That's the most fun.
Ross Glotzbach:	54:06	Well, that's good stuff. Looking forward to some more of that myself in New York City. I guess we'll end it there. Thank you so much, Tony. This has been a great talk. We're excited to be your partner again and hope for many more years to come in the future.
Tony Malkin:	54:23	Many thanks to you and the whole Southeastern Asset Management team. All the best to you. Thanks, Ross.
Gwin Myerberg:	54:32	Many thanks to Ross and to Tony Malkin for joining us today. Thank you as always to all of our listeners for

tuning in to The Price-to-Value Podcast with Southeastern Asset Management. If you have any questions or would like to share topics you'd like to see us cover in future episodes, please feel free to send us an email at podcast@SEasset.com.

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