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It's Splitsville for the Macklowes

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At an Israel bond charity luncheon at the Pierre Hotel in November, real estate developer Harry Macklowe praised the event's honoree: his son Billy. Many of the real estate executives packed into the ballroom that day were understandably surprised.

After all, in 2008, Billy successfully pushed to replace his father as chairman of the family firm, Macklowe Properties, and went on to publicly lambaste him in a *Wall Street Journal* interview.

Anyone who thought the kind words represented a thawing of tensions between the two was wrong. As *Crain's* reported last week, Billy is striking out on his own, taking several key executives as he moves to raise a fund to buy up real estate debt and properties. Ironically, he has set up shop on a full floor at Tower 56 on East 56th Street, a building he and his father once owned—and lost.

Now that the two are parting ways, the industry is watching to see if either can bounce back from the biggest real estate implosion in New York in years. Sources say Billy is abandoning the company because he believes his father's reputation was irreparably damaged by the fallout from the company's disastrous $7 billion purchase of seven office towers in early 2007 at the height of the market. Neither man would comment for this story.

That transaction triggered a two-year spiral at the company. It was forced to give back those towers plus four more, including Harry's beloved General Motors Building, in order to repay debts. All told, in the first four months of 2009, the company relinquished or sold under duress $9.5 billion worth of real estate. Since then, it lost another office building and sold off three residential towers to pay off debts.

Today, Macklowe Properties' commercial portfolio has dwindled from more than 10 million square feet in more than a dozen buildings to a total of less than 1 million square feet in just three properties, one of which it may lose to rival SL Green Realty.

The 2007 purchase was designed to catapult the Macklowe name into the same rarefied orbit as New York's legendary real estate families, such as the Rudins, the Dursts and the Malkins.

“It really gives us the chance to create the ultimate, dominant Class A midtown portfolio,” Billy told the *New York Observer* in an article in February 2007. He also alluded to creating an enduring dynasty, referring to the seven towers as a “five-generation” portfolio.

But even the most successful family empires face pressures.

“It is very difficult and challenging [for the next generation] to step into a family business,” says Tony Malkin, president of Malkin Properties, which was started by his grandfather. “You have to be really flexible and tolerant.”

Billy, a 42-year-old New York University grad, has shown little forbearance. Instead, in published interviews in recent years, he has taken issue with several of his father's decisions, including putting up personal property to secure loans.

High mortality rate

Macklowe Properties' plight is anything but unusual. In fact, two-thirds of family firms fail to survive to the second generation, and 90% disappear before the third, notes James Hutcheson, founder of Regeneration Partners, a consultancy that specializes in family firms. He also points out that one common problem is the all-too-domineering patriarch.

Harry, who is in his early 70s, fit that image to a T. He wheeled and dealed his way to power in a series of ever-bigger deals over a career of more than 50 years. In contrast, Billy's talents lie more in the nuts and bolts of leasing buildings, according to numerous industry insiders.

Although he took over as chairman of Macklowe Properties in mid-2008, Billy failed to do anything particularly noteworthy. He did distinguish himself in orchestrating the sale of properties and repaying loans stemming from the failed 2007 deal.

He also began publicly distancing himself from his father's sometimes reckless style. In a *Men's Vogue* article in 2008, he said his father focused on the next deal, not on building the company.

Institution-building

"I've spent a considerable amount of time institutionalizing our company," Billy said.

It is a performance that has drawn some admirers.

"Billy has a good reputation," says Mr. Malkin. "He tells people what he is going to do, and then he actually does it."

Father and son share many attributes—a love of sailing, good senses of humor, lavish Hampton homes and a penchant for disturbing their neighbors.

But Harry has the larger-than-life reputation. In fact, Harry's first brush with notoriety came in 1985, when he infamously failed to tell anyone that he was going to tear down two single-room-occupancy hotels near Times Square to put up a high-rise. He did that in the middle of the night without acquiring permits or turning off the gas.

After stumbling badly in the recession of early 1990s, he teamed up with Warren Cole and got the firm back on its feet. Nonetheless, in 1999, Harry pushed Mr. Cole aside to make room for his new partner, Billy. In response, Mr. Cole filed a lawsuit reportedly accusing Harry of cheating him out of millions of dollars. A court found in favor of Mr. Cole, but it is unclear if the issue has been resolved. Mr. Cole could not be reached for comment.

Now, investors can decide if either man deserves another chance. It would be tempting to write both off at this point, but people have done that before with the senior Macklowe and have been proven wrong.

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