Season 3, Episode 4, “A Career on the Line,” Nov. 8, 2022

Russ Flicker: I finally firmed up, and he brought it back up, and Blackstone said, “You know what? We changed our minds. We don't … we don't think we want to sell this.” And, of course, it wasn't personal. They just, we had had a conversation about a bunch of hotels. He called and told me this. And of course, I was going to throw up.

Kurt Greenbaum: From Olin Business School at Washington University in St. Louis, I'm Kurt Greenbaum, and this is *On Principle*. Imagine you're married with a couple of young kids and you've basically been killing it in every job you've ever had. You start a new position, but it's not long before it becomes clear. This isn't going to work out. You've got to get out. Now, add this to the scenario. It's 2009. The world has sunk into its worst financial crisis in decades. That's the story today's guest will tell us about. It's a story about the power of personal networks. It's a story about unexpected entrepreneurship. And ultimately, it's a story about believing in an idea when everyone around you—your advisors, your potential business partners, your investors—everybody thinks you're nuts. So can you tell us your name and what you do?

Russ Flicker: Russ Flicker, managing partner and cofounder of AWH Partners, a vertically integrated hotel-focused real estate investment company based in New York. When we first started the business and there's three partners that … that run my firm with with me, I'm one of the three. Two of us had started a company separately, and we really wanted it to sound—because it was the early days—like an old company that's been around forever. We decided to name ourselves Winston Harten Holdings, which to us sounded like a very old firm. I came up with the name Harten because I grew up on Harten Court and my partner John came up with the name Winston because his father-in-law actually owned the rights to "1984," Winston Smith's a key character.

So we … we buy hotels as the general partner in partnership with hedge funds, private equity companies, insurance companies, sometimes high-net-worth individuals. And they'll put up the majority of the capital. We put up a minority of the capital, but we're running the firm. And then we have a separate company that manages the hotels, a hotel management company. So the employees of that hotel report up through our management company. We have a separate development company, and therefore we're doing big renovations of those hotels, repositionings, rebrandings. But we, over time, have built up a number of these different companies that support that activity.

Kurt Greenbaum: But as you'll hear from Russ's story, he wasn't always a hotel mogul. His path started as an undergraduate in business school at WashU, graduating in 1994. In fact, it was in school where he first started learning about finance and investment banking, and he was excited by a chance to study in London for a semester. During his junior year, he finagled his way into an internship with Merrill Lynch as a foreign exchange trader. And he loved London. He loved living in the city's International Students House. He loved the people at Merrill Lynch. The only problem? He just hated the job. Too much staring at computer screens. Not enough working with other people.

Russ Flicker: And so I left there finishing my junior year, having had this great experience, enjoying London and saying, okay, I thought I knew what I wanted to do with my life and I don't now. And, you know, this is pre-Internet as we know it. It was a different time in terms of your ability to network different jobs. At the time, it seemed like I could either become an accountant or—and what I chose is—I went back to school. I went to law school right from right from undergrad because I essentially didn't know what I wanted to do. And law school was ... was fabulous. I really enjoyed it. But honestly, I knew after a few years I said, wait a minute, I don't think I want to be a lawyer. I actually applied to graduate, to MBA programs, while I was in law school, and my folks said, no mas, I was getting a job.

Kurt Greenbaum: Now, it's not too harsh to suggest that at this point, Russ was a little aimless. He even told me he didn't know what he wanted to do with his life. So straight out of business school, he went on to law school, then started working for a firm in New York City. Not long after that, he left to work on a dot.com startup, which, like many during the dotcom bubble, failed. And that's when he pivoted into commercial real estate, which soon put him across the desk from Donald Trump, who offered him a job. After five years with the Trump Organization, he left to become a partner at the Blackstone Group, where he managed the firm's real estate advisors team for another five years until the middle of 2009.

Russ Flicker: I left the Blackstone Group and was Ian Schrager's chief investment officer. He's an icon and just such an interesting person with such history in the hotel business. You know, he's one of the few people that had genuinely new ideas when they happened. The boutique hotels he developed were what became ultimately the W brand and other things that became this boutique hotel craze. He really started it. At the same time, the Great Recession had started and the capital markets were totally frozen. You couldn't get a new job and you know, it was not a good partnership. I say and I sometimes say this teasingly, but it's fact. I'm contractually prohibited from going into the details, but it was just not a good relationship. So it was a very, very challenging time and a tough decision to ultimately leave.

Kurt Greenbaum: To give you an idea about how tough a time it was, we're less than a year after Lehman Brothers bankruptcy. Financial markets have locked up. It's the worst global financial crisis since the Great Depression. And Russ is living in upstate New York with his wife, a five-year-old daughter and a three-year-old son.

The position with Ian Schrager's firm just didn't work out. But Russ' wife reassured him, saying, “We’ll just sell T-shirts on the beach if we have to.” And as Russ described things to me, nobody was hiring. In fact, people in his industry were hanging onto their jobs for dear life. So he didn't really plan to start another company. It was a necessity.

Russ Flicker: I was trying to find a deal, a deal to do, a hotel to buy, not to really start a company, but to stay relevant, to make money. I had run into a friend and a former colleague I worked with at the Blackstone Group, and we were commiserating about the state of the market. And so what started off as really an informal partnership, he and I started talking about, "Hey, we should look at deals together. We should see if we can buy anything." He had a friend who had given him the ability to use an office space. And we, you know, we'd go into the office, and I'm making air quotes because it wasn't like I was employed, but I knew I needed to start to create something.

So we go in the office and talk about how we could find opportunities and what we could do and what what value we had in this market. I was absolutely often sick to my stomach. All I'm thinking is I'm commuting. I'm eating food. You know, if I'm traveling for, you know, I'm spending money, my wife might ask me how my day was or how my week was. I don't really know how to answer, and to think, you know, literally there were times, days, weeks where you feel like you've you've you've done nothing. And it's not like you're working for a company. You didn't earn anything. You're no closer. For a lot of folks, I had just left Blackstone for five years. So, you know, they probably assumed I had a fair amount of money in the bank. The reality is, I was there for five years. On paper, I had a ton of money, and then it all disappeared in 2008. The key value we thought we could tap into originally was our relationships and our expertise. So we really looked at two avenues.

One, we looked at some public companies that were struggling and to see if we could potentially have a take-private transaction or something like that. And the other was talking to owners of assets that we knew. They came together with an asset called, at the time, the Sheraton Safari Hotel in Orlando. It was a hotel that Blackstone owned in a public company that Blackstone bought when I was still at Blackstone, and they made some moves selling pieces of it. When I reached out to, you know, one of my friends at Blackstone, they had said, "Hey, here's one that is kind of interesting. It's ... we don't care about that much, but it needs a big, big facelift. It could be it could be interesting." And we ultimately spent a tremendous amount of time understanding the asset, valuing how much we'd need to renovate it and why your return would be a positive return if you bought this hotel.

Kurt Greenbaum: You know, when you call something the Orlando Sheraton Safari, I have this mental image in my head of what this property looks like. Can you just disavow me of that or maybe ...

Russ Flicker: Oh, no, you have it correct. And that's that's one of the fascinating parts of the hotel. It had safari themed rooms that probably … we bought it in 2010. The balcony railing was a large cast-iron monkey or different animal, in the lobby and pool deck. It was pretty … it was a good location, it is a very good location. But it was a … it was pretty rough.

Kurt Greenbaum: When did you first identify this as a potential deal that you could work on?

Russ Flicker: Roughly that summer we started meetings with folks to try to convince them to put up the money with us to buy this hotel with us. Everyone was was willing to sit with us, and everyone was willing to give us the time. But everybody, everybody we met hated this deal. And one of them said something to the effect of, "Russ, I thought you were a smart guy. How can you think this is a good deal?" Like, it's so bad that not that I'm passing. No one should buy this. Some of the no's were longer no's. Short no's are easier, but sometimes there's a variety of follow-up questions. So you fly back out or you meet with an architect and ask this question, by the way, you're spending money.

And so, you know, I'm not earning money. And it all becomes paid back when I close the deal. If I close the deal. We had talked about $22 million to buy the asset with my friend at Blackstone, and we've been talking now for months to all these groups. When we finally spoke to Aria, they said, you know what? We think, you know, we think we want to buy it. So I reach out to my friend. I'm ecstatic. He's a friend. So he understands a little bit about what the last X months have been like, or at least how much time I've spent on it. "Russ, I'm ... I'm sorry. I have bad news." You know, they change their minds. They don't want to sell this asset. And ...

Kurt Greenbaum: This is Blackstone ...?

Russ Flicker: This is Blackstone.

Kurt Greenbaum: And he. And he's inside at Blackstone.

Russ Flicker: Inside of Blackstone. He's my friend who works in asset management. And of course, it wasn't personal. They just he had had a conversation about a bunch of hotels. He called and told me this. And of course, I mean, I was going to throw up. I ultimately send a long email and leave a long voicemail for John Gray, who's one of the folks who runs Blackstone now and someone I had worked for while I was there. I remember, call it a week later, maybe the longest week of my life, I'm taking Metro-North home, so I go from Grand Central, and I'm taking it to Westchester County, and in one of the interim stops, I happen to remember it's a place called Tuckahoe, I get a cellphone call from John Gray on his cellphone. So I step out. He's in China.

Kurt Greenbaum: So you're saying to me John Gray calls from China and you're on the platform in Tuckahoe really playing it cool, basically.

Russ Flicker: I did not play it cool. I could tell you that. You know, I'll say that I did some kind of combination of the nice version of insisting and begging. John, please. You know, I've talked to everybody. Everyone hates this deal. No one's going to pay. This is like, trust me, I've run a process for you and you have to sell to me. I mean, I've spent all this time on it, and part of my message to him was, you're a fiduciary. I'm telling you, you know, no one thinks I'm stealing this from you. He regrouped with his team and they came back to me. And, you know, the good and bad news was, OK, we'll transact. But it's 23, not 22. 23 million. Instead of 22 million? I was relieved, even though I had to go back and convince Aria to pay $1,000,000 more. And they did agree to that. And then in 2009, we bought our first hotel.

Kurt Greenbaum: How much was this process into you at that point?

Russ Flicker: The best guess I could give you because of, you know, if you add legal to the mix, a couple hundred thousand.

Kurt Greenbaum: Wow.

Russ Flicker: Yeah. A lot of money.

Kurt Greenbaum: So that stuff that you'd put on a home equity line of credit or something at that point.

Russ Flicker: In this time, our lawyers wouldn't charge us to the very end. One of the guys I work with I went to high school with and is now a real estate lawyer, a big firm partner. He reminds me that back, you know, in our first few deals, I used to call him "partner" because I'd say, partner, we need to close this, right? You know, if I owe you a lot of money, we both really want to close this. At each stage, you're trying to make sure it makes sense to spend the next dollars. But those last 30, 60 days, you're doing diligence. We make a deal with our 90 or 95% partner on how we split diligence cost if the deal blows up. You're hiring folks to do, you know, look at the roof and make sure the structure's what you expect and you're doing all those kinds of legal diligence and title diligence. And until you go hard, until you are really prepping for the closing, right before that, you're at the maximum risk point. And ... and also, given that we were so inexperienced, you know, we were at the maximum risk point for sure.

Kurt Greenbaum: Now, remember, at the top of this episode when I mentioned the power of personal networks? Let's rewind the clock a few years back to Russ' days at Blackstone and take a small detour. It's a detour that'll add another layer to the story we're telling.

Russ Flicker: When I was at Blackstone, we typically had portfolio-level financing. But one thing I worked on in Boca was a condo development adjacent to the Boca Resort, actually adjacent to Boca Beach Club. It's called 1000 Ocean, high-end condos. And I was introduced to Larry Ackman and Simon Ziff, who ran Ackman Ziff, a mortgage brokerage firm in New York. And so at some point when I told them I was leaving Schrager and I was networking with folks and I said, I'm going on my own. He said, Russ, you should meet my son. Not knowing who Larry's son was, I'm sure I thought his son wanted a job or something. I said, Larry, I really appreciate it. I mean, maybe when I get my sea legs, you know, but right now, I'm not sure it's a great time. And he said something to the effect of, "No, Russ, last year, my son made $800 million. I feel like he might want to invest." I said, "Wait a minute, Larry, your ... your son's Bill Ackman?"

Bill Ackman, who's the president of Pershing Square, the CEO, the founder of Pershing Square, and he's an activist investor. Also he has been in some very high-profile activist positions and therefore been the subject of, you know, front-page articles in The Wall Street Journal and on CNBC all the time. And when I left Ian Schrager, in part of all the meetings I was having, I got to sit down with Bill. And what he said then, really was, "My dad thinks very highly of you. Let's keep in touch." When we were buying the hotel, Aria was going to put up 95% of the money. I needed to raise 5% of the money. And so Bill Ackman was ... was the large anchor, in my GP, my 5%. In our first transaction together, I had called Larry and gone through the deal with them. I called Bill and he said, "OK, so how much do you need? What deal do you think is fair for us?" I proposed something to him. He said, "Great. Send me the paperwork." It was shocking to me. I mean, did that just happen? In fact, I remember thinking, is he going to wire? Like, is that. And we sent him documents and he wired. Bill has since invested in 16 or 20 of my hotels. It's great to have have partners like that and trust. And your reputation is the gold standard in the transaction business.

John Barrios: That is kind of the mentality that you see in a lot of entrepreneurs is that you have to have some self-confidence, right? It could go to the extreme where you're overconfident, right? But that does help tackle the uncertainty angle to it. And that also kind of shows, you know, his leap. Right? He was in a bad situation, in an employment arrangement and he just felt like "I need to do something else." And rather than to kind of go back to some other employment arrangement, it's like, well, I can use networks that I have as well as take some risk. So that is kind of boilerplate entrepreneurship. But that kind of is when you hear descriptions of an entrepreneur or someone that kind of is confident, is willing to take the risk, the decision to try to get that deal through and losing that deal would hamper his reputation, right? Like if that thing would have failed, the first one, it would be really hard to come back and find LPs that give you money to set up another deal.

Russ Flicker: That's John Barrios. He's an assistant professor of accounting and my colleague at WashU Olin Business School. And while his academic focus is on accounting, his research delves into areas including how people find their way into entrepreneurship, how new businesses are formed and other economic behaviors. His research has been covered in *The Economist, The Wall Street Journal* and *Fortune* magazine.

John Barrios: One of the fundamental questions that kind of potential entrepreneurs grapple with is, do I leave the safety and security of W-2 employment with retirement, with the ability to kind of forecast, you know, future income through the wages that I can put my kids through college, like I can plan that, versus you take the leap where there's a lot of uncertainty. You have flexibility because you get to decide, right, on the consulting—who's a client, potentially go after projects that you find interesting—but there's very little certainty about, like, will you find that next client in a week and will you have clients there to support your family and kids? And that's kind of one of the large determinants of people, whether do they jump or not? Part of my research focuses on kind of like entrepreneurship, the role of information for entrepreneurs, determinants of entrepreneurs, the role of risk and having fallbacks, and how that can facilitate entrepreneurial activities. In the academic, at least, economic literature of entrepreneurship, there's kind of two views of entrepreneurs. There's kind of like the Knightean uncertainty that entrepreneurs are bearing risk. And then there's kind of the Schumpeterian entrepreneurship, whereas like the entrepreneur has an idea who gets funded, there's no real risk there.

Kurt Greenbaum: The risk is being distributed, I guess.

John Barrios: By the financial markets. Right. And we kind of see that in your discussion. Right? Like how does he fund the first deal? He needs an LP with 95% risk. That bears 95% of the funding, but he's putting some money on the table. But the risk that we think about is the uncertainty, per se, that we really don't know how that deal is going to pan out, but for the entrepreneur pushing the bounds, which is kind of in your discussion, what he was doing. Right? He's saying, hey, we have this property out there and nobody thinks it's good, but I think it's good. But when he went to look for funders, 20 of them were like, this is a really bad idea. You shouldn't be doing this. So there is that risk that he's bearing even though he's looking for financial markets to kind of fund the decision.

Kurt Greenbaum: Now as we're talking about the risk Russ was bearing while looking for investment partners, I want to mention a couple of concepts John introduced to me. It seems there are lines of research that delve into different approaches to entrepreneurship. On one hand, for example, there's a view outlined decades ago by an economist named Frank Knight. This Knightean view talks about startup founders who gauge the uncertainty of the risk ahead, however uncertain it might be, and bear that risk on their own. They're dipping into their 401(k), they're maxing out their credit cards toward executing a vision. Then there are the theories from another economist named Joseph Schumpeter. And in this Schumpeterian view of entrepreneurship, as John described it, for me, the founder identifies an innovation and must break through resistance from funders to support the idea and spread the risk around. John was suggesting that Russ has danced back and forth between those two approaches throughout his story. He's put in weeks and weeks and it's months now of work to try to secure the deal for this hotel in Orlando. And they sort of say, "No, I don't think so. I don't think we're going to sell it." But he goes to part of his network and Blackstone and says, "I've put in the time. I'm telling you, you're not going to get this kind of return for this property from anybody else." And he sort of consents in his description that there's this moment of desperation, like, this is my last hope. You've got to listen to me on this.

John Barrios: The reality is a lot of these—the successful ones that we see ex-post—these risks, they were risky, but they were still a calculated risk. Right? He wasn't going to grovel to Blackstone if he didn't think that that property was going to provide him with an ability to kind of set up this path. Right? Because he had done all this work. But he's not that far off that he's just like, "Oh, I'm just going to buy any random property." We kind of see that, at least even in his perception of why this property made sense, we see kind of a due diligence, like a market research about Disney and Orlando and properties and why other, like the opportunity was there is because a lot of people feel that Disney just over supplies rooms because that's part of the business model—right?—of Disney. And so why would you like invest in another hotel if you're always going to have Disney overproducing? And he thought the numbers were there. Right? But again, that is a calculated risk.

Kurt Greenbaum: This idea of kind of fake it till you make it, project the image of confidence, can you generalize on that a little bit?

John Barrios: In terms of rational agents, I need to find funding. I can go to people and be like, "Oh, I haven't slept for three weeks, but there's a great idea. I need you to put up 95% of the capital." So I think that's kind of where the optimism comes in and the problem solving, right? Because even another kind of way to think about entrepreneurs is like some of these ideas are kind of opportunities to kind of like eliminate issues or pain points, right? So the way he even describes how he tried to take the property from Blackstone is like, this is a sore point in your portfolio. It doesn't like, I'm willing to pay you money. Nobody's going to. And then he comes to the other side and says, well, look, I found this this property that with some love and care, we can be like this major winner, right? So it's like, how do I solve a problem?

Kurt Greenbaum: What I think I'm hearing as we talk about this is, yeah, I'm sure he had some desperation there, but he made a very strategic and good tactical decision to frame it in their interests so that he could perhaps persuade them to go along for the ride with him.

John Barrios: A lot of this is facilitated by the networks that we form. So a lot of times, yeah, when we think of entrepreneurship, we think of like someone just like goes into the dark abyss and tries to like start off. But a part of that capital that we're using is these networks that are costly, right? Because we've developed them. We could use them for other things. We could have been using them to find a job. Right? Rather than for investors. Part of the story that kind of was this network effect about how we rely not just on capital from like money and finding LPs, but a lot of that is facilitated by networks, which it is a competitive advantage for them. Right? Because if me or you decide to jump in and buy a hotel in Orlando, even if it's a really bad hotel that people think. But we think it's a great idea. It's probably very hard to enter that market because we don't have the network that he had, and that's something that we don't really account for a lot of the times for these entrepreneurial activities. Think of it as you have two types of capital to start the business. You have money. He didn't have a lot of that, but he had this kind of intangible social capital that he was able to use to source a property and to source potential investors.

As an outside observer, listening to his story as being very first-order, the team exercises we do at Olin and these like group projects, creating these connections with students, with potential future job candidates as well. Right? With potential future people that you could set up your own business with. That's all where this network starts getting built, really, right from where you do your undergrad, where your law school and where you start working. It's an information processing story where there is uncertainty about you, right? You need a job. I'm looking to hire someone. I have two candidates. I'm uncertain about both of them. But if you are part of my network, then there's more certainty, there's less uncertainty about you. And on the margin, that's why we see networks are very important, even in in W-2 employment, in referrals. Right? So like having someone that works at the company makes it a lot easier for you to get the job than if you didn't know anyone at the company. Whether it's good or bad, there's a perception that there's less uncertainty about you because you're in the network.

Russ Flicker: We've since bought a management company and bought 31 hotels, 10,000 hotel rooms. Most of ours are larger hotels. We've deployed about $2 billion. We built a development company from the ground up. We have 5,000 employees around the country. All these hotel employees are our employees, and about 75 corporate employees that are just outside of the hotel. But I think what I love about the company and the business, and I think my employees would agree, is we still have that entrepreneurial spirit. Knowing where we came from and trying different things and being creative. But also, you know, we're partners with Apollo, we're partners with Baupost. And Starr, Hank Greenberg's insurance company post-AIG, and Bill Ackman and all these amazing companies and people.

You know, we've created something we're very, very proud of. If I didn't know it was going to succeed, and yet I understood how challenging and tough it was, I would have realized there was 95% chance it was going to fail, and therefore I might have given up. Not that I knew it was going to be OK per se, that my hotels would be OK. No one knew what was happening, but I matured through 2008, -09, -10 and I said, You know what? We're going to see, and understanding that the unknown, whenever you think you've got everything lined up, things turned around was valuable. In your career generally and certainly in starting a business, it is a windy road. If you're going to be an entrepreneur, for sure, you need to have the stomach to navigate that, to take the twists and turns. But also you have to be confident. If someone hasn't convinced you, even if they're not convinced it's a good idea, you need to continue to have that conviction. And that's about your business idea, your business plan, your transaction. But it's also about yourself. There were dark times when, again, I thought to myself, maybe I'm not special, smart. Who I thought I was is being put to the test. Remind yourself that, listen, I'm smart and hardworking. I'm going to I'm going to find a good path here and and trust that. You can't let someone change your mind without facts. If you still believe in it, you need to have that conviction and sell them and convince them, explain to them, get the facts to back you up. Absolutely. You need to have that conviction in the face of doubters.

Kurt Greenbaum: And that's a wrap for this episode of *On Principle*. I want to thank Russ Flicker for his candor and his flair for storytelling as he walked us through this episode in his life. Many thanks also to John Barrios for bringing a little more context into the issues we talked about. I hope you'll visit our website and check out the show notes for this episode, where we'll link to more information about both Russ and his company, and John. In addition to the show notes, you'll find previous episodes of *On Principle* at onprinciplepodcast.com. Meanwhile, don't forget to subscribe to *On Principle* in your favorite podcasting app so you get updates when new episodes drop. I also welcome comments, questions or episode ideas by email at Olin podcast at W-U-S-T-L dot E-D-U. That's olinpodcast@wustl.edu.

On Principle is a production of Olin Business School at Washington University in St. Louis and comes to you with creative assistance by Katie Wools, Cathy Myrick, Judy Milanovits and Lesley Liesman. Special thanks to Ray Irving and his team at Olin's Center for Digital Education, including our audio engineer, Austin Alred. Jill Young Miller is our fact-checker. Sophia Passantino manages our social media. Mike Martin Media edits our episodes, with original music and sound design by Hayden Molinarolo. We have website support from Lexie O'Brien and Erik Buschardt. On Principle is the brainchild of Paula Crews, senior associate dean of strategy and marketing for the school. Once again, I'm Kurt Greenbaum, your host for *On Principle*. Thanks for listening.