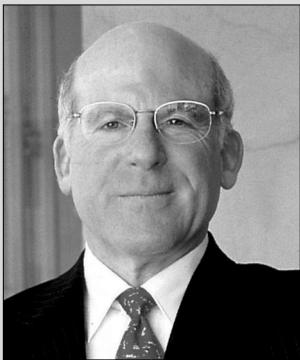


# THE WALL STREET TRANSCRIPT

Questioning Market Leaders For Long Term Investors

## Mack-Cali Realty Corporation (CLI)



**MITCHELL E. HERSH** is the President and Chief Executive Officer of Mack-Cali Realty Corporation. He also serves as a Director and member of the Executive Committee of the Board of Directors of the company. He has served as Chief Executive Officer since 1999 and, in 2004, assumed the additional title of President. Mr. Hersh is responsible for the company's strategic direction and long-term planning, and for creating and implementing Mack-Cali's capital markets strategy and overall investment strategies. Previously, Mr. Hersh held the position of President and Chief Operating Officer of Mack-Cali. Before joining Mack-Cali in December 1997, Mr. Hersh had served as a Partner with The Mack Company since 1982 and as Chief Operating Officer of The Mack Company since 1990, where he was responsible for overseeing the development, operations, leasing and acquisitions of the firm's office and industrial portfolio. Mr.

Hersh is involved in several professional, educational and charitable organizations. He is a member of the Real Estate Roundtable and serves on the Board of Governors of the National Association of Real Estate Investment Trusts and the Board of Directors of the New Jersey Chapter of the National Association of Industrial and Office Properties. He also serves on the Board of Trustees of Montclair State University and the New York University Real Estate Institute and on the Board of Directors of the Commerce and Industry Association of New Jersey and is a member of the Monmouth University Real Estate Institute Executive Advisory Council. He frequently speaks at industry conferences on real estate markets and trends and has been interviewed by leading national media, including *CNBC TV*, *Bloomberg TV*, *The Wall Street Journal*, *Fortune* and *The New York Times*. Mr. Hersh is a recipient of the Steps to Independence Award from Cerebral Palsy of North Jersey, the Partnership Award from New Jersey Network, the Humanitarian Award from the Hebrew Academy for Special Children, the Humanitarian Award from the National Conference for Community and Justice-New Jersey Region, and the Leadership Excellence Award from the Monmouth University Real Estate Institute. Mr. Hersh has a BA degree in Architecture from Ohio University.

### TWST: What is Mack-Cali?

**Mr. Hersh:** Mack-Cali is a \$5.5 billion real estate investment trust focused on the office sector. We own and manage Class A office assets and office flex assets, with our primary concentration being in the Northeast corridor of the United States — specifically the mid-Atlantic region, from the metropolitan Washington, D.C., region up through the southern limits of Fairfield County, Connecticut. Our most significant concentration is in the state of New Jersey, where we

own and manage approximately 19 million square feet of properties. We also have a significant concentration in Westchester, where our portfolio consists of about 5 million square feet. Then we move through the Philadelphia suburban market and the southern part of New Jersey, where we own and manage about 3 million square feet, and then down into the Washington corridor, where, with a recently announced acquisition, we will have a portfolio of about 1.3 million square feet. We hope to expand that latter base of operation in the future.

We went public in August 1994, but we've been a real estate developer in New Jersey for over 50 years. Since our IPO, we have had several significant company style transactions — most notably the \$440 million acquisition in January 1997 of the Robert Martin Company, which was a Westchester-based private real estate company. Also the \$1.2 billion combination and merger of The Mack Company, which was accomplished in December 1997. We have now grown the company from what was a nascent \$300 million — plus or minus — at IPO, to \$5.5 billion in assets and market capitalization.

We have significant development capability within the company. We have a land inventory that's wholly owned that can support in excess of 11 million square feet of new development in very high barrier to entry markets, including our presence along the "Gold Coast" in Jersey City, New Jersey, where we have an in-service portfolio of about 4.3 million square feet, as well as a 50% ownership of the Hyatt Regency in partnership with Hyatt Corporation of the Pritzker family. In Jersey City, we can develop an additional 4.5 million square feet of office space. Then, throughout our various suburban markets, we have significant development capability to take advantage of the improving economy and new tenant demand as businesses and corporations expand in the future.

different iterations of change. Certainly, we all witnessed some of the icons within that part of the industrial sector, such as AT&T, changing the shape of how they do business, as well as their reduced employment count. In pharmaceuticals, we've seen the effects of some of the tort litigation that has impacted that industry, as well as patent expirations.

So we have seen a transformation that has created some strain within various office markets throughout the United States. But clearly, the Northeast corridor has outperformed most other markets, if not all other markets throughout the country, with the possible exception of Southern California. In part, that's due to the barriers to entry that exist by virtue of the limitations on the ability to provide new supply and new inventory — thus insulating the existing inventory from some level of pressure.

This is the financial capital of the world and the intellectual capital of the world, and certainly the base of operations for major corporations and financial service industries. There is no question, however, that we have seen vacancy rates increase as a result of some of the things I have mentioned relative to consolidation and downsizing, but I believe that we have reached the point of inflection.

We have seen significant improvement in the midtown Manhattan marketplace over the last year and a half or so, where va-

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**TWST: Give us an idea what the office sector looks like, particularly the office sector that you are working on in the Washington to New York corridor.**

**Mr. Hersh:** The office sector has been under some level of pressure post 9/11, and even slightly pre 9/11. But clearly, the tragedy and events of September 11 really altered the landscape with respect to knowledge-based employment. We had just gone through the Internet and technology implosion that occurred in 2000, and then, given the uncertain world that we lived in following the events of 9/11, we saw a significant amount of downsizing in various parts of the corporate landscape, including financial services and technology.

We have seen the consolidation of some of the economic drivers within our region, including the pharmaceutical industry and the telecommunications industry, which have gone through

cancies have diminished to a state of equilibrium, i.e., that's generally thought of as sub-10% vacancies when we are talking about office occupancies. So now we are seeing companies that are beginning to expand their employment base and have enough confidence in the future of the global economy, and the ability of America and the corporations doing business here to compete globally to add jobs — thus, the need for office space. And as Manhattan has tightened, we have seen the benefits expand to the suburban markets surrounding Manhattan, particularly Northern New Jersey and certainly, the Gold Coast in Jersey City.

Washington, D.C., has also seen those benefits, given the defense-related economy and the research and development-related economy in connection with some of our national health programs, the NASA programs and security and national defense. That has all continued to buffer and strengthen that macroeconomic base.

So while the last three to four years have seen increased vacancy rates and pressures on rents, we are beginning to see that change. We have reached the point of inflection where, not only will we see continued trends in a positive direction relative to absorption of space and thus diminishing vacancy rates, but we will also see opportunities to build into the marketplace for companies that are certainly in need of the highest level of technological proficiency in their facilities.

My outlook for the future is certainly more than cautiously optimistic that we are going to see positive trends continue through 2006. In 2007, we will see a much brighter horizon because we will have seen equilibrium reached in a number of markets, and from a landlord's perspective, rents will have completely stabilized and moved in an upward or positive direction. We will see the need for some level of new development, certainly some build-to-suit development for expanding companies doing business in the global economy, and that will directly benefit Mack-Cali, because of our land inventory and expertise in development.

**TWST: What are the dynamics, as you look at growth opportunities through acquisitions or through that development resource you have in hand?**

**Mr. Hersh:** With the amount of capital that has been available to invest in real estate, there has clearly been a strong penchant among investors from a variety of constituencies — European money, Asian money, domestic money pension funds and insurance companies — to invest in bricks and mortar and hard asset type investments. That, with what has been a historically low interest rate environment on a sustained basis, has made the investment sales market very competitive and difficult to compete in for acquisitions.

But having said that, we have purchased, for example, 101 Hudson Street on the Jersey City waterfront, a magnificent trophy asset of 1.25 million square feet. In fact, it was a marketed asset. At the end of the day, the seller — a partnership consisting of an institutional investor and an entrepreneurial investor who is the original developer of that magnificent asset — felt quite comfortable, since the principals of that development company knew me personally for 20 years and had a great deal of confidence in my ability to execute as well as our market presence in Jersey City. So they were quite comfortable that the execution of that acquisition would be seamless, and we were able to acquire the asset for a substantial discount to replacement cost. Ours was certainly not the highest price bid for the asset. And we continue to look below the radar screen for relationship-driven transactions where we can add a level of confidence as well as our balance sheet to give us a competitive advantage.

We are about to close on an acquisition in the suburban Washington market, in Greenbelt, Maryland. That was a situation where a marketed portfolio of superior class A assets in a park-like setting with an excellent location along the Beltway was being sold by a group of general partners who were interested in estate planning and dealing with legacy issues. So they needed to work with a REIT

that could offer them currency in the form of a REIT stock or OP units for tax deferral reasons.

In determining the purchaser, their considerations included a combination of reputation in the marketplace, reputation in the universe of real-estate people, as well as the strength of the currency and the strength of the balance sheet. At the end of the day, they looked at Mack-Cali's reputation and the senior leadership of the firm over many years. They coupled that with the balance sheet that is a strong investment grade rated — rated BBB flat from S&P and Fitch, and BAA2 from Moody's — with a lot of financial flexibility. So they were extremely comfortable in selling their property substantially for stock in our company, and had confidence in the ability of the company to continue to grow earnings over time and maintain the strength of that balance sheet. So there are certainly opportunities in the marketplace that are below the radar screen that are relationship driven to afford us to continue to be competitive, even in the acquisition market in this kind of an environment.

**TWST: What are your priorities for the next 12 to 24 months?**

**Mr. Hersh:** You will certainly see us reinforcing and expanding our positions within our core markets, through both a combination of very exciting acquisition opportunities as well as some level of strategic joint venture activity. I'm quite confident that we will be engaged in some level of new development, primarily on a pre-lease built-to-suit basis that will take advantage of our land inventory and our skill-set in development. So, in my view, we are entering an era of opportunity, given the fact that we are seeing strengthening in the job market in knowledge-based employment, which is vitally important to the office sector. We will have the opportunity to continue to consolidate ownership within our core markets to strengthen our franchise even more, and to strengthen our market positions and continue to be a market leader.

**TWST: What historically has been the shareholder base with Mack-Cali? Has that base itself undergone any changes?**

**Mr. Hersh:** There is always some level of transition. Most companies in our sector are similarly held, where some 70% of the stock is held institutionally. We have a very strong base of long-term investors in our stock that have significant positions and have maintained those positions over an extended period of time. One of the elements of the company that's quite attractive to investors is that we are careful. We are deliberate — we do what we have to do to strengthen our market positions to grow earnings over time and to not complicate the story or do things that are distracting from the ability of management to focus on the long term, which is to create stability, predictability and long-term earnings.

We have been one of the very few companies in the office sector that has been cash flow positive after having paid the dividend, which is quite healthy in the REIT industry because of the requirement to pay out 90% of your taxable income to shareholders in the form of dividends to maintain the REIT tax status. Even with that —

along with paying for capital improvements on a recurring basis and tenant improvements and leasing commissions, which, in our business can be quite significant when you are re-tenanting space and paying brokerage commissions — we have still maintained ourselves as one of the very few cash flow positive companies. That says a lot of positive things to investors and represents careful, thoughtful financial planning, balance sheet planning and portfolio management. And that predictability and confidence level transcends into long-term ownership on the part of many institutional holders.

**TWST: Do you encounter any misperceptions as you discuss your company and its strategies with the investment community?**

**Mr. Hersh:** In this business, the macro trends are the things that we are doing to maintain a relatively straightforward business model, to take advantage of opportunities by utilizing the skill sets, the talent of management, and a strong balance sheet. Investors from sector to sector are more bullish about the potential for earnings growth, depending on where the economy is and how it affects the office market versus the mall market versus the apartment market, etc. Some elements of the macro economic trends are clearly outside of the control of anyone, but how you manage the different cycles, insulate your portfolio from risk in terms of vacancy and underperformance are the things investors look at.

When you look at a company like Mack-Cali, which in a very difficult period of time in the economy over the last three or four years has maintained 90% or better leased rates in a largely suburban office portfolio, it's something that instills a huge level of confidence in investors. So those are the macro trends that are important from the investment community.

**TWST: Are there any particular items that you feel investors should be focused on as they look at your performance over the next 12 to 24 months?**

**Mr. Hersh:** Investors should be looking at a relatively straightforward business model. It's not excessively complex in terms of the number of different joint ventures and potential for con-

flicts of interest, which could be quite distracting. So I think that the simpler the story, the better the platform is, and certainly that's important. Having a large market share is very important because that gives you the ability to ensure that you are seeing every potential transaction in the marketplace, that you enjoy good relationships with the commercial real estate brokerage community, as well as continuing to build on the confidence level with major corporate clients and businesses within the marketplace, so that they are always thinking about Mack-Cali when they have space and facility needs. So customer and tenant satisfaction is essential, and you can never take your eye off the ball.

Relative to those elements, you need to absolutely maintain impeccable real estate assets. In a down market, the highest quality properties benefit from a general trend of flight to quality, when tenants can move into higher caliber space for lower dollars per square foot or lower rents. So you need to always be on your game relative to the improvement of your portfolio by upgrading to the highest level of assets within the marketplace. A combination of all those things is critical, and it positions you well for the inevitable market improvement.

**TWST: Thank you.**

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