



PHOTO: Juan Garcia

John Carpenter III

John Carpenter III

The man who salvaged
the Las Colinas dream

John Carpenter III sits in a well-appointed conference room on the 16th floor of a high-rise office in what appears to be a fairly cushy seat. Inside the gleaming building, executives stride down quiet halls. Outside stretches Las Colinas, the area's premier mixed-use real estate development.

Glistening water taxis glide through picturesque canals. An immaculate monorail swooshes past pristine highrises. Lifelike mustangs are captured in bronze in front of one building, while time ticks away on a huge floral clock a few blocks down the road.

But the apparent tranquility of John Carpenter's perch is deceptive. Those who follow the trials of Texas real estate know John occupies one of the hottest seats in town.

In 1986 the 38-year-old executive inherited the top job at Southland Financial, Las Colinas' founding developer, from his father, Texas business legend Ben Carpenter. But what should have been a plum post with financial clout, power and prestige, actually was a job piloting a runaway roller coaster. Southland Financial owed almost a billion dollars, cash flow was virtually non-existent and stock prices were plummeting.

To everyone's amazement, John Carpenter stopped the roller coaster and lived to tell the tale — although he does show more gray hair today than most men his age. Creditors were satisfied, shareholders received something — albeit not much — for their once valuable holdings, and the company regrouped.

"Survival" may not seem like much compared with the heady days of the late '70s and early '80s, but in the '90s it's almost synonymous with success.

The complex deal that salvaged Southland Financial and kept Las Colinas under Carpenter management took 18 months to complete. Each of those months the company teetered on the edge of bankruptcy.

Though the deal involved hundreds of executives and attorneys from across the country, "The restructuring would never have succeeded without the leadership of John Carpenter," says David Brune, chief development officer of Las Colinas Inc.

"He was given an absolutely daunting challenge and assignment and pulled it off," says Alice Connell, vice president of Teachers Insurance and Annuity Association, the company's new partner.

John's story is not just another "Overextended Developer Narrowly Avoids Bank-

ruptcy" yarn. For years he has been a man caught between his father's dream and cold reality. After three years of trial by fire, he's begun shaping that dream on his own terms.

When John Carpenter III pulls his Lexus out of the driveway each morning he bypasses downtown Dallas, where the family insurance agency, Southland Life, once dominated the skyline.

John, whom his wife, Cele, describes as "the type who reads the newspaper when he's driving," then tools down a highway named for his grandfather, and turns onto land that once comprised the family ranch.

At day's end he returns to the Highland Park home he shares with his three children and Cele, daughter of former Texas governor Dolph Briscoe.

John embodies the stuff of which Texas myths are made. Those myths started with his grandfather, John Carpenter Sr., an executive with Texas Power & Light, who founded Lone Star Steel and built Southland Life Insurance. In the late '20s John Carpenter also became a part-time rancher with the purchase of 300 acres northwest of town. Though he called the ranch "Hackberry Creek," his wife dubbed the family

Continued on page 2

BY DIANE JENNINGS

The view from the Las Colinas hot seat recently got better

Continued from page 1

retreat "El Ranchito de las Colinas."

Their son, Ben, quickly compiled an equally impressive resume. After a distinguished military career during World War II, Ben built the family wealth and interests, including a small real estate business, into an even larger fortune.

Those are tough acts to follow, but John never thought of doing anything else. "It was expected of me," he says.

The only son in a family of five children, John spent weekends and summers on the ranch, baling hay where his office now stands.

His parents were University of Texas alumni, and John grew up in "an orange and white room," but he opted to attend Texas Tech University. After receiving a bachelor's degree, John earned a master's in business administration from UT.

In 1976 he joined Southland Life, embarking on an 18-month training program. At first, he was "Mr. Carpenter's son," says Frank Miller, president of JPI Realty Inc., the investment property management company at Las Colinas, but he was "well received."

Though there was minimal resentment toward the boss' son, some Southland insiders say there was annoyance about the cadre of friends who surrounded John. Mr. Miller, for instance, was a grade school buddy, while Michael Lewis, now an executive vice president, was John's fraternity brother.

By the time Ben's boy joined the family business, emphasis was shifting from insurance to real estate. In 1977, he moved to the Las Colinas offices of Southland Financial, the parent company of the life insurance company and the real estate development company. Though Southland Financial had gone public in 1971, it was controlled by the Carpenter family through their 40 percent interest.

At that time, real estate deals in Texas blossomed like dandelions after a spring deluge, and "from '76 until 1984, I thought, 'Gosh this is great,'" John says.

Because of his grandfather's legacy and his father's success at enlarging that inheritance, it seemed unlikely John would ever be required to serve as much more than a caretaker. In 1986 *Forbes* estimated the Carpenter assets at \$230 million in its listing of the 400 wealthiest people in the country.

But no one counted on the collision course between Ben Carpenter's obsession and a collapsing Texas economy.

Ben Carpenter's dream was to build a model multi-use community that few cities could match.

In the '60s he realized the family ranch's days were numbered because of encroaching development, so he began acquiring neighboring

tracts of land. Several months before the nearby Dallas/Fort Worth International Airport opened, he announced plans for Las Colinas.

His father wanted the ranch "developed in a special way," says John, "as opposed to just selling it off to some developer or splitting it up into a bunch of bowling alleys and beer joints."

"Special" meant an upscale residential and office community. Unsightly utility lines were buried underground; signage was closely controlled to avoid "blinking neon;" curbs were built of granite, and parking garages were hidden behind elaborate facades in the "urban center." The plan also included carefully manicured green-spaces as well as country clubs and an equestrian center.

While Ben Carpenter became intimately involved in the development, most observers didn't share his vision. The area seemed too far from the central business district to attract much interest, so skeptics snickered as they dubbed it "Ben's Folly."

John, who was still in school when his father conceived Las Colinas, remembers the criticism. "I heard it, but I was not concerned with it The naysayers really couldn't see the long term," he says.

John says he was always confident about his father's plan, though he admits to having mixed feelings. "I'd still rather it be the old ranch," he says somewhat wistfully.

Nonetheless, he threw himself into the job of developing Las Colinas. And as he did, an inevitable clash of wills occurred.

The Carpenters present a solid familial front to outsiders, but those who know them well say father and son are distinctly different.

Ben Carpenter is frequently described as a "Renaissance man" who can discuss everything from wildflowers to Buddhism with ease. John is more of a high-class "good old boy" whose interests run to movies and sports.

Ben is the essential "detail person;" John concerns himself with the "big picture."

Ben bordered on workaholicism before his retirement; John works hard, but adamantly places his family first.

Ben ruled his empire through intimidation; John leads quietly.

As the two worked together, their styles occasionally conflicted.

"There is a natural phenomenon throughout nature for young males and their parents to test the strength of their antlers . . . I think a healthy amount of that occurred," says Peter Gevalt, a New York investment banker who works closely with the Carpenters.

But by the early '80s, observers say, John became frustrated by his lack of input. Years of "knowing we had no control," were difficult, says

SELF PORTRAIT

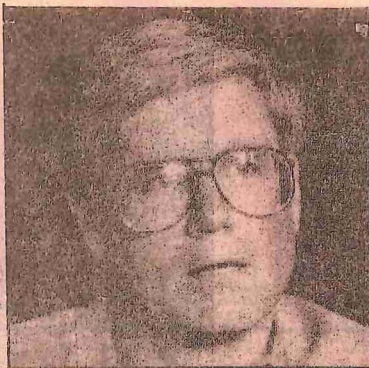


PHOTO: Juan Garcia

John William Carpenter III

Birthdate and place:

March 9, 1952, in Dallas.

Occupation: General partner, Las Colinas partnership.

Family: Wife, Cele, children Benjamin, Austin and Bonner.

My favorite food is: Mexican.

Favorite expression or cliché: Keep a going.

The guests at my fantasy dinner party would be: My friends.

The worst job I've ever had was: I've never had a bad job.

My pet peeve is: I hate waiting in lines.

I'm proudest of: My family.

My ideal vacation is: Sea Island, Ga., with the kids.

I drive: A Lexus.

The best day I've ever had was: When my kids were born.

My favorite authors are: Tom Clancy, Robert Ludlum, Dick Francis.

The best advice I could give a 20-year-old is: Pace yourself.

My epitaph should read: He was a good guy.

My favorite drink is: Iced tea.

Cele Carpenter, because "John disagreed with a lot of the things that were going on."

At one point John chose to head a company project in Austin, focusing his attention on an area where his father had little involvement, says an insider. But while he was distanced from day-to-day operations, John remained aware of the mounting problems at Las Colinas.

In January 1984, Southland Life Insurance, the conservative company that funded much of Southland Financial's activities, was sold. While the sale raised capital, it also put most of the Carpenter family fortune in the Las Colinas basket.

At that time Southland Financial and Las Colinas still appeared robust. Land sales soared to \$127 million in 1984, and Ben Carpenter attempted to take the company private to insure family control. That idea died, however, when Ivan Boesky and Craig Hall bought large chunks of stock and drove the price up. At its peak, Southland Financial traded for almost \$40 a share.

The good times appeared unending, so the company bought more land, financing the purchases primarily through \$350 million in "junk bonds" issued by the investment firm Drexel Burnham Lambert.

In 1985 land sales dropped to \$96 million — but no one was unduly concerned. To prepare for a possible "slowdown" however, the company began backing away from some development.

But before it could adjust, the "slowdown" became a crash landing.

As the downturn hit "it was like, 'Let's keep going, let's keep doing what we've been doing,'" John remembers. "And it became more and more apparent we weren't going to make it if we just kept doing what we were doing."

His father's vision of Las Colinas, "did not allow him to compromise," John says. He could not cut overhead or discontinue projects.

The bottom seemed to drop out almost overnight. One year the Carpenters were comfortably ensconced in the Forbes 400, the next the family was relegated to a page entitled "Dropouts," with the notation "Net worth now far below cut-off."

Business came to a standstill as Dallas office space stood empty, land prices dropped and financial sources dried up. Sales at Las Colinas plummeted by a whopping 75 percent in 1986, while interest on the debt continued to mount. Without the insurance company to pump in much needed cash, the dream was in trouble.

So was the dreamer. During the mid-'80s Ben Carpenter underwent a series of heart operations that made it impossible for him to work as he once had. In September 1986, he announced his retirement and put Southland Financial up for sale.

But no buyers materialized. As 1987 dawned, the company was removed from the market and John was named CEO.

"When Ben passed the ball to John, this was not a hot potato," says a real estate executive, "... this was on fire."

"Ben said, 'Oh, by the way, I have to retire for health reasons, otherwise I won't survive. Here — the company is (\$886) million in default and the real estate market is spiraling down. Remember, this is our family ranch, all your sisters' fortunes are tied to the company — and do something.'"

John Carpenter's college degrees, the Southland training program, and his decade of experience at his father's side didn't prepare him for the bust that followed the boom.

"I showed up on the scene, 'good old boy,'" John says, "and the first thing I had to say was ... 'Shareholders, you're not going to get your dividend any more.'"

"Then the next thing I said was, 'Creditors, you're not going to get any interest payments.'"

"Third was, 'We're going to terminate 40 percent of our staff.'"

"And next was, 'The remaining staff, you're going to have to work longer hours, and some of you take cuts in pay, and the rest of you not get any increase.'"

Morale was low. "Black Fridays" were common. "Forty people (would) lose their job in one day," says one survivor. "I'm talking about the executive types. It's extremely disheartening when you're sitting next to the person and wondering, 'Am I going to be next?'"

Top executives who once had gathered to discuss development projects, potential tenants, and land sales met now to talk about what creditors to stall and which ones to pay.

The company entered into a crisis mode as the management team considered options. Improved properties, including Southland Center, a prime block of downtown real estate, were sold to slow financial hemorrhaging, but Drexel representatives, who gladly had financed the debt during good times, proved exceptionally demanding.

At one meeting Drexel representatives suggested the restructuring would be best accomplished without John's team. "We said, 'We're not leaving. We'll put the company in bankruptcy, (but) you're not throwing us out the door,'" John remembers.

Bankruptcy was an option, he explains, but abandoning Las Colinas was not. Though he joked about wishing he'd become a smalltown football coach instead of a real estate executive, friends say he couldn't walk away from Las Colinas because of family pride.

His persistence and equanimity during those difficult times were key factors in keeping the company going, executives say.

First a plan suggested by Drexel to restructure the land debt through a partnership with Dallas-based Lincoln Property Co. was tried. Creditors didn't like it.

Then Southland executives approached Teachers Insurance, a conservative real estate lender that had financed individual projects at Las Colinas, about the land debt. The company passed.

Next, John and his team scoured the world, knocking on potential investors' doors. "Some of them came and kicked the tires, and looked around," John says. "But at

that time you've got to remember that Texas was a no-no as far as investing."

Workdays stretched into nights, and weekdays melted into weekends. The company's stock dropped precipitously, but Southland executives refused to give up.

"We were not," John says, "going to lose this thing."

A year after taking over, John was running out of doors to knock on. Peter Gevalt, who had financed several projects at Las Colinas, called to chat one day and inquired how business was going. John, who has a reputation for keeping his "game face" on at all times, replied understatedly, "We're still exploring all sorts of alternatives."

Mr. Gevalt suggested another meeting with Alice Connell of Teachers Insurance.

This time Teachers was interested. "Why we did it can be traced back to certain old-fashioned connections," Ms. Connell says. "People and place. We were familiar with Las Colinas, having financed property in Las Colinas previously ... We certainly believed in the fundamental, long-term strength of Dallas, and the premier position Las Colinas has."

But Teachers wanted the entire company — the undeveloped land and the remaining improved properties. Teachers also wanted Carpenter family involvement, a key point for John.

"The ongoing presence of John Carpenter and his people is really key to the ongoing success of Las Colinas," Ms. Connell says. "These are people who know that land, planned that land ... They have such a commanding presence ... It was a deal we would not do without them."

The deal, however, was more complex than anyone imagined. JMB Realty, a company experienced with junk bonds, was brought in as a partner to help restructure the debt. The first step was to get creditors' approval, followed by shareholder approval of the plan to take the company private.

The plan was announced in May 1988. Creditors gathered in a hotel ballroom a month later.

John, who served as "master of ceremonies" says he felt "a little bit of embarrassment, a little bit of sadness, a little bit of frustration, a little bit of bitterness, a little bit of challenge, a little bit of 'we can get

it done.' It was just a mixed bag."

Creditors understood the benefit of keeping the project together because the assets were more valuable as a whole than in parts; but many were sorely pressed for cash themselves.

For the next year Southland executives kept more than 300 creditors at bay while working out the details. The first Tuesday of every month was "foreclosure day" and Southland executives routinely begged, pleaded and cajoled creditors not to foreclose. Had any major creditor chosen to do so — and many came close — Southland executives were prepared to file bankruptcy to protect the development.

"It got pretty hairy," says one insider, mentioning the time executives in Houston, Los Angeles, New York, and Chicago were patched into a conference call with three fax machines. An accord was reached only 15 minutes from the filing deadline, he says.

Next, approximately 3,500 shareholders had to agree to a \$2 a share buyout. It wasn't much, but it was better than nothing, so shareholders agreed. The largest shareholder, the Carpenter family, received no cash. Instead they exchanged their interest for a 60 percent ownership in the two resulting partnerships — worth slightly less than half their previous holdings.

"Our interest," John says, "is still pretty much betting on the future."

On June 29, 1989, negotiations were completed in New York. It took three sleepless days to iron out the details. John was so keyed up at the end, he went jogging through Central Park at 4:30 a.m. A few hours later, the deal was sealed.

Ben Carpenter's dream had been salvaged.

John Carpenter is sitting in his study, holding his son, Austin, in his lap. The 4-year-old has chicken pox, so he's home for the day. Dad is home because it's Texas Independence Day, a holiday at the Las Colinas companies.

A holiday is a luxury for John. Though his workdays are not as long as they were during the restructuring, he says he feels more committed than ever to Las Colinas "because we came through it."

Ben Carpenter says he never doubted his dream would survive, and credits his son's "determination to not quit."

Twenty years from now, when Las Colinas is nearing completion, John Carpenter wants to prove faith in the development was justified. But when better days return, he'll appreciate them more.

"When times are good, you can't get too excited, and when times are bad you can't get too excited," he says. "You've just got to get through it and be consistent."

John, his friends like to joke, is 38 going on 58. The last few years have been hellish for him, they say, but they also have been good because he finally emerged from his father's very long shadow.

"The constant comparisons to his father do John a great injustice," says Ms. Connell. "I think it's time for people to recognize exactly what he has accomplished, what he was not given. People talk about what he was given. (That) he was given a place of social and financial prominence in Texas."

"Really what he was given was the reins of a deeply troubled company at a time when there was no reason to feel better about it ... At the time he was asked to restructure a multi-million dollar company he had very little currency in his hands with which to do it ...

"He did it. And now he's about the job of completing the development of Las Colinas. For God's sake, isn't it time to say this man's been busy?"



PHOTO: Joe Laird

John and Cele Carpenter on the town: Family comes first.

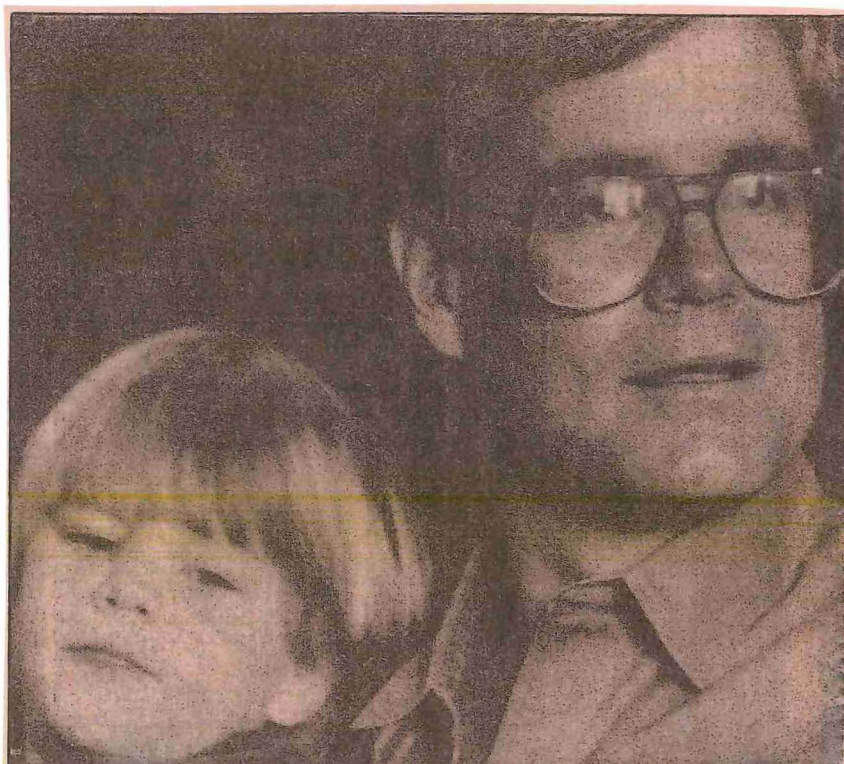


PHOTO: Juan Garcia

John Carpenter III at home with son Austin