Case Study #7 **September 2018**

The Chicago Merchandise Mart: How the World's Largest Commercial Building Fueled an American Political Dynasty

The Merchandise Mart

Spanning 4.2 million square feet, two city blocks, and rising twenty-five stories high, the Merchandise Mart – the largest commercial building in the world – stands on the northern bank of the Chicago River. From the merchandising Hall of Fame in front of the Mart, one can watch passing architectural tours admiring the impressive Art Deco exterior of the building. These days, the Mart is home to high-end designers, advertising firms, and, increasingly, tech companies and start-up incubators. Within its vast interior, the industries of the Third Industrial Revolution have taken hold.

Yet, when the Mart opened on 5 May 1930, no economic revolution was already established. By the early 1900s, the Second Industrial Revolution had brought assembly lines to factories, and the disassembly line to Chicago's slaughterhouses, and it had seen electrification, telegraphs, and the railroads span the North American continent. But the revolution was already slowing by the third decade of the twentieth century. What had revolutionised industry in the nineteenth century now served as commonplace and not until well after the Second World War would Americans feel the first stirrings of another revolution as computation, telecommunications, and genetics again transformed the economy.

But even as revolutions paused, money was still to be made, invested, and consolidated, and the Merchandise Mart held the potential for just that. The Mart's original owners, Marshall Field & Co., planned the building to restore their wholesale division to its former glory and to fulfil the last wishes of their founder, the late Marshall Field. After the Second World War, another capitalist would place his hopes on the Mart and in the post-war years, the building would finance an American dynasty and buy a young Catholic American his route to the presidency.

Throughout its existence, the Mart has been a site for innovation, fuelling new and imaginative uses of trusts, air rights, and air-conditioning that spread from Chicago across the country. Yet the site had inauspicious beginnings. Prior to construction of the Mart in the late 1920s, the two blocks on the North Bank of the Chicago River were almost entirely occupied by railroad yards, an unlikely setting for one of Chicago's most notable buildings.

Foundations

As the Second Industrial Revolution transformed America in the nineteenth century, vast new industries had developed and the distribution networks of the country had transformed to cope. Railways revolutionized the United States. Journeys that had once taken weeks, now took days. Suddenly the whole nation was connected, and right at the centre of the railroad network was Chicago. The railways brought millions of livestock to Chicago where they were slaughtered and 'packed' and shipped out across the country. Between 1865 and 1920, more meat was processed in Chicago than anywhere else in the world. But other industries too used Chicago as a centre: grain, lumber, and steel were just a few of the industries which Chicago dominated.[1]

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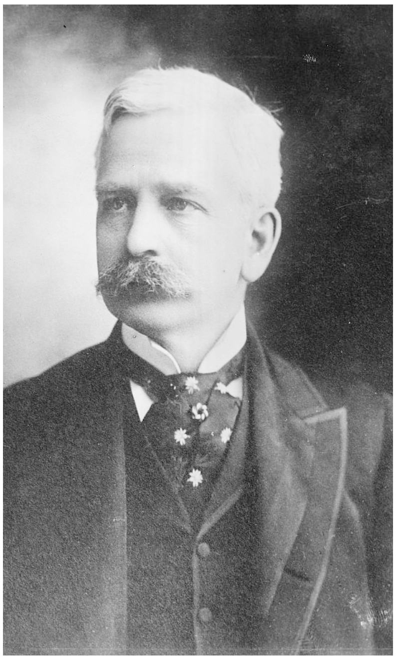
Figure 1: *'The Merchandise Mart, October 2017, From the Chicago River'*, Kevin M. Higgins Collection



Marshall Field

With all these industries, Chicago boomed, becoming the quintessential Second Industrial Revolution city. By the 1920s, impressive skyscrapers lined the emerging commercial heart of the city, North Michigan Avenue, while to the south of the river, in the Loop, elevated railways, streetcars, and automobiles brought thousands of Chicagoans to work, shop, and play in the downtown.

One prime destination for these shoppers was Marshall Field & Co.'s department store, known for its "attentive service, quality merchandise, and dependably fashionable goods."[2] Marshall Field, the company's founder, had been born in 1835 in western Massachusetts. Seeing the opportunities Chicago offered, the ambitious young merchant set out for the Midwest in the 1850s. By 1867, Field had a partnership in the largest wholesale and dry goods firm in Chicago: Field, Palmer and Leiter. Fifteen years later, Field had bought out his partners and renamed the business Marshall Field & Co.

Department stores in the United States had first begun in New York. Early Manhattan department stores, like A. T. Stewart's and Hilton, Hughes & Co., prioritized a decentralized, 'department' organization. Retailers tracked profits and losses through individual departments, while each the manager of each unit was responsible for maintaining stock in its specific goods. Often based near the garment industry, clothing departments had a short supply chain and could easily refill stock straight from the producers.[3]

Chicago's department stores were organised somewhat differently, with an innovative vertical integration of wholesale and retailing. While retail was Marshall Field's first love, wholesale had been the backbone of the company for decades. Wholesale of clothing alone accounted for five to six percent of the total freight shipped out of Chicago in the 1920s, worth some four-hundred million dollars every year.[4] In Chicago, centralization was key. Just as Chicago had long served as a hub for the distribution of meat, timber, and steel, by the early twentieth century it also was the hub for the distribution of clothes, furniture, and upholstery which all the dry goods department stores specialised in.

Plans

By the time that Marshall Field died in 1906 he was the director or major officer in 28 corporations with a personal net worth of 120 million dollars.[5] With his death, his family stood to inherit enormous fortunes. But Field's control over his estate stretched beyond his death with his carefully crafted plans for the company and a meticulously written will. Twenty-two thousand words long, Marshall Field's will was the longest ever to appear in Chicago's Probate Court. Field's will bequeathed money to many museums, hospitals, and other institutions, and various family members. Yet the bulk of the estate was left to his grandsons Marshall III and Henry, the children of Field's deceased son, Marshall Field II.[6]

Field's will contained a particularly novel clause. To protect his legacy, Field stipulated that the estate was to be held in trust until Marshall III, then just thirteen years old, reached fifty, when it would be divided between Marshall III and his brother Henry. If either boy died first, the estate would be transferred, intact, to the other. In the meantime, Field had required that the fortune be invested in what he considered the safest investment: real estate. In response to the stipulations of Field's will, the legislature in Illinois passed a law limiting the period of trusts after 1907, too late for any Field heirs. Henry died before he could inherit his share in 1917 and so Marshall III inherited the full amount on his fiftieth birthday, 28 September 1943, some thirty-seven years after Marshall Field I had died.

For the company, Marshall Field had other, carefully worked out plans. He named John Shedd president of the company, his nephew Stanley Field as vice president, and James Simpson as second vice president. Shedd continued to manage the retail store and its largely female customer base, adding several restaurants including the Walnut Room, which, when it opened in 1907, was the first and only full service restaurant to be located in a department store.[7] When Shedd retired in 1922, Simpson took over the presidency.

View of the Chicago River, 1927. Note railroad yards in the bottom left corner, the future site of the Merchandise Mart.

Construction

By the 1920s, the wholesale side of Field Co.'s business had started to decline. Simpson hoped that consolidating the wholesale division from thirteen warehouses scattered around the city into one large building that would bring back profitability and serve as a central showroom, not just for Field & Co., but for a range of manufacturers. Simpson believed they could also rent out enough space to cover some of the costs of the construction.

Simpson chose the site of the new building carefully. On face value, River North was a somewhat strange choice of setting: the neighbourhood was filled with cheap hotels, brothels, tenement housing, and shipyards. But it was also home to the Illinois and Central Railroad Yards. Simpson's idea was not to purchase the land and clear out the railways; instead he sought to buy the "air rights" over the yards for his building. The lower level of the building would then be a network of tracks the company could use for incoming and outgoing freight, with easy access to a dock and the next levels of the building where motor traffic, storage, and distribution offices were located.

There was one major problem with Simpson's plan: air rights did not exist in Chicago in the 1920s. However, the concept had been used successfully to sell space over trackage at Grand Central Station in New York. While the Illinois Commerce Commission initially opposed the purchase, mounting public pressure forced their hand. Most importantly, the purchase had the backing of the Chicago Plan Commission. The Plan Commission, a body which sought to improve the city of Chicago by implementing a City Beautiful plan for Chicago, believed that building the Mart would hide the unsightly yards and be a fitting addition to the modern, monumental Chicago they envisioned. Eventually Simpson paid $2,000,000 for the air rights and construction could begin.[8]

We shouldn't be surprised that the Chicago Plan Commission backed the Merchandise Mart – for James Simpson had been chairman since 1927 and a member since his return from France after the First World War. Simpson had grand plans for his chairmanship. His first act as chairman had been the straightening of the South Branch of the Chicago river, whose meandering banks had caused problems for property developers for decades. After they completed that project, Simpson turned his attention to the North Bank. The South Bank had been developed under the leadership of the previous chairman, Charles Henry Wacker, whose double-decker roadway on the South Bank had relived congestion and brought order and beauty to the bank. The new road had even been named Wacker Drive in his honour. Now Simpson hoped to replicate his efforts on the North Bank: the first step would be the development of the Merchandise Mart.

Plan for the Merchandise Mart and the North Bank of the Chicago River. Note the boulevard intended to run along the north side of the river to complement Wacker Drive on the South Side.

The Merchandise Mart under construction, seen from the Lake Street Bridge in 1929.

Simpson wanted a modern and monumental building to reflect a new and prosperous Chicago. In the 1920s, that meant Art Deco. He hired the architecture firm of Grant, Anderson, Probst, and White to design the building and construction started on August 16, 1928. The Merchandise Mart was to be the largest building in the world, costing Field & Co. between 30 and 40 million dollars.[9] The amount of material and man hours to construct the building were almost unfathomable:

Four hundred-fifty-eight reinforced concrete caissons, sunk between eighty and one-hundred feet below grade, would lift and support the whole structure some twenty feet above the tracks and seamlessly meld the Mart with downtown streets. At any one time some 2,500 men were employed during the construction of the Mart. Contractors installed the following: 60,000 tons of steel, 29,000,000 bricks, 380 miles of wiring, 200,000 cubic feet of stone, 4,000 windows, and forty miles of plumbing pipe. Five miles of interior corridors were lined with six-and-one-half miles of plate glass.[10]

The first two floors of the building were to be occupied by restaurants and stores, while the third to sixth level would be occupied by Marshall Field & Co.

The remaining floors would be occupied by manufacturer's display showrooms and hundreds of offices including those of radio stations and their accompanying studios.

For Simpson, the Merchandise Mart accomplished several things: promoting his vision of a planned Chicago; ensuring his legacy as chair of the Chicago Plan Commission; and restoring the Field & Co.'s wholesale division to its former glory. Yet even before the first stone was laid, some within the company expressed scepticism, including John McKinley, the first vice president in Field & Co. McKinley believed that wholesaling could not be saved, and the company's future lay elsewhere.

Decay

If the economy had been booming for much of the Roaring Twenties, the same was not true of the 1930s. A year into the construction of the Mart, in 1929, the American stock markets crashed and, by the opening of the Mart in May 1930, the Great Depression was well underway. Although the department store continued to do well for Field & Co., in 1931 the wholesale and manufacturing division lost so much money that the company finished the financial year with losses of $5 million. The following year, losses rose to $8 million.[11] The company returned to profitability in 1933, but their wholesale operations were still losing millions and something had to be done. Within the company a rift was growing between Simpson and John McKinley, the first vice president, who urged John Shedd to come out of retirement to fix the company. "Some departments must be killed," Shedd told McKinley after a quick survey. "They are gone and gone forever, and they can't come back."[12] The executives needed a solution, and so they turned to one of the leading experts in America, James McKinsey, the founder of McKinsey & Company, for management advice.

Following McKinsey's analysis of the troubled business, the company sold off the bulk of its manufacturing subsidiary. The board forced Simpson to resign and McKinsey himself agreed to become CEO of Marshall Field & Co. in 1935. Of course, this also meant that James McKinsey turned over his eponymous consulting firm to his junior partners in order to restructure Marshall Field. McKinsey moved rapidly to turn the business around; *Fortune* magazine called it "one of the bloodiest purges in all of merchandising history. By 1936, the entire division was gone."[13] An equally bloody restructuring within James O. McKinsey & Company would ultimately result in the formation of A.T. Kearney & Co. in Chicago and McKinsey & Company in New York in 1939 as a result of James McKinsey's decision to abandon his partners in the depths of the Great Depression. [14]

Yet Field & Co. held on to the Merchandise Mart throughout the 1930s and through the early 1940s. During the Second World War, agencies within the US Federal Government became the Mart's main tenants. But with the end of the war, when the government no longer needed the space and decided not to renew its lease, the property became a liability. Although the giant building was bringing in $3.5million a year in rent, this didn't cover the cost of its mortgage. The president of the Field & Co., Hughston M. McBain, decided that they should get out of the real estate business and instead concentrate on their core-competence in retailing.


Joe Kennedy

Windows

Field & Company's decision to sell the Mart soon attracted attention from John J. Reynolds, a real estate broker in New York, who told an ambition real estate dealer, Joseph P. Kennedy of the opportunity. Joe Kennedy had been born to a moderately wealthy Irish family in East Boston in September 1888. After graduating from Harvard in 1912, Kennedy set out to become a banker and then began trading in stocks in the 1920s. Hugely successful, Kennedy made millions in the stock market and, remarkably, escaped the worst of the stock market crash of 1929, getting out just before the crash hit and, instead, investing in movies, liquor, and real estate. By 1936, Kennedy was making over a million dollars a year from his investments.

But while movies and liquor were very profitable, they held personal costs for the Kennedy family's reputation. Although Joe Kennedy was never involved in bootlegging, rumours abounded that he was a rumrunner. This worried Kennedy who had long held political ambitions for his sons, particularly Joseph P. Kennedy Jr., his eldest. To bolster his family's political credibility, Joe Kennedy decided to abandon the more disreputable elements of his business empire and to invest heavily in corporate real estate.

Joe Kennedy had adopted a distinctive style of investment, always believing in remaining liquid. Typically, Kennedy held a site or building for only a few years before selling, never interested in holding out for the last dollar of profit. According to his friend and adviser, James Landis (Chairman of the Securites and Exchange Commission), Kennedy wanted no responsibility for operating companies: "He did not want to invest in companies that might produce labor problems or other difficulties. He kept liquid and could write a check for $5,000,000 right off the bat."[15] Kennedy knew when to get in and when to get out.

The Merchandise Mart seemed just the sort of investment that would interest Joe Kennedy – an underperforming property with huge rental potential that could be bought for a low cost, turned around quickly, and sold for a profit. Kennedy knew that, due to concerns over excess profits tax liabilities, Field & Company's President Hughston McBain was tempted to sell the building even if it meant a loss, thereby reducing his excess profits and the accompanying taxes. But, with the end of the Second World War in sight, McBain had a hunch that the excess profit tax was soon to be repealed by Congress, in which case he

would hold on to the Mart and seek the most profitable offer. In order to secure the building, Kennedy had to assure McBain that the excess profit tax was not going to be repealed by Congress in 1945.
With his energy focused on the Mart, Joe Kennedy wrote to one of his political connections, Massachusetts Democrat and Majority Leader in the House of Representatives, John McCormack. Kennedy impressed upon McCormack that the repeal of the excess profits tax "affects greatly a very great enterprise which I am contemplating, which I am trying to conclude as quickly as possible. To do this would be rather difficult until the other side of the proposition is convinced that the repeal of the Excess-Profits Tax will not be effective until January First." McCormack conferred with the Ways and Means committee and assured Kennedy that the tax would certainly remain in effect for the whole of 1945. Joe Kennedy's inside information would secure McBain's approval.

Yet Joe Kennedy had his own worries: namely, whether he would be able to use financial trusts to structure any purchase of the Mart. By the 1940s, Kennedy had been using family trusts for several decades, establishing "irrevocable trusts" for his wife Rose and their children to lessen their rate of taxation. Prior to closing on the Mart, Kennedy confirmed with the American Internal Revenue Service that he could vest ownership of the Mart in a series of family trusts.[16]

Suitably assured, Joe Kennedy could focus on purchasing the Mart. In a letter dated 7 September 1945, Kennedy rejected an alternative real estate acquisition explaining that, "I don't think I will be in the market for any further real estate buys for quite some time. I have some under agreement now which [will] pretty nearly take care of all I want to do on that matter." By mid-November of 1945, Joe Kennedy had purchased the Merchandise Mart in Chicago. Although exact figures are hard to ascertain, Kennedy paid roughly $12.5 million for the Mart, just under half the original cost of the Mart's construction more than fifteen-years earlier.

Renovations

Kennedy hired Wally Ollman to be the CEO of the Mart and the two men set about finding tenants to replace the departing government agencies. Recognising the structural changes that the end of the Second World War were going to bring to the US economy, Kennedy and Ollman sought to fill the Mart with furnishings showrooms selling goods to returning soldiers for their new homes. Ollman also suggested installing air-conditioning, a rarity in office buildings in the 1940s. Joe Kennedy agreed and the Mart became the largest building to be air-conditioned in the world, laying the foundation for an air-conditioning revolution which would spread across the country. To help with marketing, Kennedy also set up fifty-cent public tours of the Mart. Soon the Mart was bursting with tenants.

Unusually for Joe Kennedy, he decided to keep the Mart and rejected repeated offers to purchase it. After all, the Mart was now making huge profits. By 1955, the annual revenue generated by its rents alone was more than Kennedy's initial investment of $13 million. In the words of biographer, Scott Stossel, "the building became the cornerstone of the Kennedy family fortune."[17] An East-Coast political dynasty funded by a Midwestern commercial property.

Joe Kennedy had minimized his tax liabilities, securing the profits for his family, by placing ownership of the Merchandise Mart – and its annual income – into a partnership: 12.5% for him, 12.5% for his wife, Rose, 50% for family trusts, and the remaining 25% into a foundation established in memory of his late son Joseph P. Kennedy Jr. who had been killed over the English Channel in August 1944. Because the property was owned by this 'partnership' rather than a corporation or an individual, Kennedy and Rose paid lower taxes on their shares, the family trusts paid lower rates still, and the foundation paid nearly nothing.[18] Joe Kennedy's innovation was legal, not technological.

With the Mart now turning a considerable profit, Kennedy could turn to his other enterprises. Although Joseph Jr had perished in 1944, Joseph Sr.'s ambitions for his children had not died. Instead, Kennedy transferred his hopes to his next eldest son, John F. Kennedy. With Jack running for Congress in 1946, Kennedy needed to get out of the liquor business and sell the holding company, Somerset Imports. With the newly asquired Merchandise Mart, "generat[ing] more money than Somerset ever had, much of it tax-free", Kennedy could afford to do just that.[19]

If Jack was going to be a successful politician, he needed money and lots of it and the steady revenues from the Mart supplied just that. Kennedy spent millions on his son's congressional, senate and, eventually, presidential campaigns and then did the same again for his younger sons Robert and Ted.

The election of John F. Kennedy as President of the United States was the ultimate victory for Joseph Sr., who, as a Catholic, had been belittled and excluded by Boston's elite 'Brahmin' society. But it did not come cheaply. JFK's rival for Democratic nominee, Hubert Humphrey, called Kennedy's campaign "the most highly financed, the most plush, the most extravagant in the history of politics in the United States" with almost all the money coming from his father and much of that fortune coming from the Mart. With JFK's election, the Mart had fundamentally changed America's political landscape.

Exits

The 1960 election would mark the highpoint of Joseph P. Kennedy's career; less than a year later he suffered a major stroke and was unable to speak or walk from then until his death in 1969. Even so, Joe Kennedy outlived two more of his sons. Jack was killed in office on 22 November 1963 while Bobby was assassinated during his own Democratic primary campaign in 1968. Ultimately, Joseph Sr. was survived by his wife Rose, their son Ted, and their four daughters, Rosemary, Eunice, Patricia, and Jean. His other daughter Kathleen, 'Kick', had died in 1948. The children were not known for being careful with their money, nor did any express an interest in business. Instead, the surviving children and Rose were supported by family trusts for the remainder of their lives.

The Merchandise Mart continued to generate income for these trust funds throughout the nineteen sixties, seventies, and eighties. By the 1990s, Christopher Kennedy, son of Robert Kennedy, worked for Joseph P. Kennedy Enterprises and ran the Mart. As the only grandchild of Joe Sr. to go into business, he represented the family interests in the business. By Chris Kennedy's generation, however, even the vast fortune Joseph Kennedy had left was being diluted by the ever-growing family. Each of Kennedy's cousins received an annual income from family trusts of $70,000 to $100,000. With children of their own, the eventually cousins decided to sell the Mart.

In 1998, Vornado Realty Trust bought the Mart for $625 million, six times what Kennedy had paid for it in 1945 when adjusted for inflation. Each heir gained millions of dollars from the sale, many using the money to fund their political campaigns.[20]

Today the Merchandise Mart still stands on the banks of the Chicago River and, according to real estate experts in Chicago, is valued at roughly 1.7 billion dollars. A building that grew out of the vision of Marshall Field, who never saw the completed Mart himself, the Merchandise Mart was James Simpson's swan song. It also marked the last major development of the Chicago Plan Commission. Enthusiasm for the Chicago Plan evaporated with the Great Depression and the commission's membership and influenced diminished dramatically. The plans for a North Bank Wacker Drive never materialized; the only part completed was that outside the Merchandise Mart.

Opening at the outset of the Great Depression, the Merchandise Mart was never able to revive the fortunes of the wholesale division of Marshall Field & Co. Yet Joe Kennedy saw promise in the building and bought it at a price that made it one of the greatest real estate investments of the twentieth century. The Mart purchased a presidency and secured the Kennedy family's fortunes for three generations.

Even so, by the turn of the twenty-first century, Joe Kennedy's vision for the Merchandise Mart was no more. The Third Industrial Revolution had brought computing to every industry and had transformed telecommunications. The world, and Chicago itself, had changed. Second Industrial Revolution industries no longer fueled the US economy, and Memphis, the hub for Fedex's cargo system and San Francisco, virtual hub for the information economy, claimed centrality. The Merchandise Mart would have to be re-imagined yet again to prosper in the new economy.

Vornado, led by Steve Roth, has changed the Mart yet again. While the Merchandise Mart still is home to many high-end designer showrooms, increasingly its floor space is rented to tech companies. Start-up incubator, 1871; online reviewer, Yelp; online marketplace, eBay; and smartphone giant, Motorola Mobility are all tenants. Mobile payments company, Braintree, lease 60,000 square feet on the 8th floor, while digital marketing agency Razorfish leases another 65,000. Healthtech company, MATTER, and health insurance marketplace, GoHealth, both have homes in the Mart. In total, roughly 1.5 million square feet, more than one-third of the Mart's office space, is now leased by high tech firms, all nimble competitors in the virtual economy occupying real estate in the largest corporate building in the United States. The modern global economy has reshaped an old Chicago office building in its image.

Yet for all the apparent changes, Chicago real estate still powers East Coast political ambitions. In 2009, the Trump Organization, a New York real estate development firm, completed building Trump International Hotel and Tower, currently the fourth-tallest building in America, on the North Bank of the Chicago River and just a ten-minute walk from the Merchandise Mart.[21] Only eight years later, Donald Trump, the scion of a wealthy family of real estate developers, was elected the 45th President of the United States. *Plus ça change, plus c'est la même chose.*

Endnotes

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