

Center for Real Estate

The Institute Faculty voted in January 1984 to approve the creation of a master of science in real estate development (MSRED) program. This step led to the development of a curriculum, identification of faculty, recruitment of students, and the establishment of an academic and advising infrastructure. In the fall of 1984, the first MSRED class matriculated. The MSRED program was housed within the Center for Real Estate (CRE).

As part of the School of Architecture and Planning and MIT, one of the foremost institutes of science and technology in the world, both the Center for Real Estate and the educational offerings housed under the MSRED program are uniquely positioned to leverage science and technological discoveries for the benefit of the real estate industry by providing forums for research, education, and the exchange of ideas among thought leaders within the global real estate community. With this backdrop, our primary goal is to educate the industry's next generation, preparing them with tools to develop better real estate worldwide. In keeping with the MIT tradition, we bring to the industry the very best offered by practical experience coupled with the interdisciplinary studies of design, science, and engineering. We offer:

- A specialized, globally recognized, one-year MSRED program that emphasizes the creation, operation, and management of the physical product of real estate
- A unique, interdisciplinary research platform that links academia with industry to meet the need for more informed decision making based on practical knowledge
- A network of global outreach that links the real estate industry with center graduates and MIT to develop and support the industry's long-term growth

Strategic Goals and Objectives

The center had four key strategic thrusts for FY2010: enhancing its educational programs, achieving financial sustainability and stability, leveraging CRE's 25th anniversary to better position the center within the Institute and the real estate industry, and enhancing the industry partnership program to encourage greater participation and provide a better value proposition for the industry.

Accomplishments During FY2010

Research

Developing an innovative and industry-relevant research program is an important element of the center's strategic focus. In FY2005, the center identified three potentially high-contribution initiatives that reach out beyond CRE to other elements within MIT and the real estate industry, span a range of disciplines, and are synergistic with the center's strategic directions and abiding mission: the Housing Affordability Initiative, the Commercial Real Estate Data Laboratory (CREDL), and New Century Development.

Housing Affordability Initiative

Under the direction of professor Lynn Fisher, the focus of the initiative was refined to promote a body of scholarship for informed public discussion of regional housing issues and improved public and private decision making. During FY2010, Professor Fisher was on sabbatical at the University of North Carolina at Chapel Hill. During her sabbatical, the initiative was static.

Commercial Real Estate Data Laboratory

CREDL facilitates and promotes the gathering and compilation of data and methodologies to quantitatively measure the performance of commercial real estate along a variety of dimensions (investment, operational, environmental). Researchers in the Commercial Real Estate Data Laboratory continued to pursue the development of commercial property market information, producing the Transaction-Based Index using data provided by the National Council of Real Estate Investment Fiduciaries. This index has been cited repeatedly by news sources such as Bloomberg, the *Wall Street Journal*, and CNBC.

The center's CREDL initiative also has been the platform by which two other pioneering indices for tracking commercial property prices in the United States have been developed. The first of these, based on repeat-sales data from CRE partner Real Capital Analytics Inc., led to the development of Institute-patented methodology that has been licensed for commercial use in the Moody's/REAL Commercial Property Price Index (CPPI), which has become the leading index of US commercial property market prices. The MIT Technology Licensing Office agreement allows CRE to continue to publish the CPPI on the center's website (after a delay), thereby continuing to enhance the center's reputation among the academic and industry real estate investment research communities. The second major index development project, funded by the National Association of Real Estate Investment Trusts (NAREIT), is still under development and is referred to as the "PureProperty" indices.

New Century Development

During FY2010 the center's chairman, professor Tony Ciochetti, continued his work with professor Yung Ho Chang, head of the Department of Architecture, to move the "1K House" project beyond the studio.

Building on the studio course taught in FY2009, they created a workshop in fall 2009 in which a number of studio designs were taken through the process of creating construction drawings. The center pulled together a collaborative team of graduate students, licensed architects from Next Phase Studios, and industry partner Skanska, an international construction company. The unique link between academia and practice, with close oversight and intensive input and collaboration from professional partners, proved to be a very rewarding learning experience for both students and industry participants.

Over the past year, Professor Ciochetti presented the 1K House initiative at several conferences and invited lectures in the United States, Portugal, Turkey, and Kenya. In

Kenya, where there is a pressing need for low-cost, sustainable housing, he spoke before Kenya's Ministry of Housing, representatives of two local universities, local government and metropolitan development authorities, United Nations Habitat, prominent local developers, slum housing cooperatives, and mortgage providers. Future plans are to reach out more broadly within MIT to engage other disciplines to help identify and begin to solve the myriad problems associated with addressing one of the world's most pressing issues. This initiative has been very well received both domestically and internationally, emphasizing awareness and the desire to help resolve this important issue.

Education

Master of Science in Real Estate Development

During FY2009, the decision was made to make the MSRED program more competitive, with a smaller, more select class. Part of the rationale was that during an economic downturn it is easier to place a smaller, more competitive group. In the spring of 2009, 29 people were accepted from a pool of 124 applicants. Of this group, 14 people matriculated as part of the MSRED class of 2010, a yield rate of 48 percent. This yield was by far the lowest that the MSRED program has ever had and was a reflection of the general economic uncertainty. More typical are the yields between 1997 and 2009, which ranged between 63 percent and 91 percent and averaged 78 percent for this 12-year period.

The Center for Real Estate has not had the resources to offer fellowships to accepted students. Consequently, the vast majority (90–100 percent) of MSRED students self-finance their education, relying on loans, savings, and gifts. The economic downturn and its disproportionate impact on the real estate industry led to a diminution of applicant savings, making them much more “price” sensitive. Feedback (written and verbal) from those who declined the offer of admission to the class of 2010 indicated that finances were the primary reason for deciding not to attend MIT.

Department of Urban Studies and Planning Visiting Committee

In November 2009, the Department of Urban Studies and Planning (DUSP) Visiting Committee requested a meeting with the Center for Real Estate's chairman and managing director to discuss the center and the MSRED program. The purpose was to provide a status update since the committee's 2007 visit.

Long-term financial stability is a key objective of the center, and in FY2007 and FY2008 CRE posted back-to-back break-even budgets. However, the global economic recession severely impacted the real estate sector, resulting in a drop in revenue in FY2009 as partnership fees and professional development revenue declined. Nonetheless, we have remained clear-eyed about our focus and used this time to continue creating a solid infrastructure by cultivating new cross-campus relationships, developing new courses for both our MSRED and Professional Development Institute (PDI) programs, and nurturing the dynamic interaction among research, industry, and education.

Classroom Offerings

To accommodate the smaller class and the more challenging economy, all members of the class of 2010 were required to take the career development seminar offered by the center. The course met biweekly and included workshops, presentations by industry professionals, and one-on-one advising sessions.

Since the majority of development occurs outside of the United States, for the last five years the MSRED has incorporated the opportunity for international exposure into its course offerings. In January 2010, seven members of the class of 2010 participated in an international class taught by Tony Ciochetti. The students visited projects, companies, and universities in London, England, and Lisbon and Porto, Portugal.

Regional Treks

This year the MSRED experience was enhanced by two treks. The first was in November 2009. Students attended the Urban Land Institute's annual meeting in San Francisco, CA, from November 4 to November 6. While at the meeting, students dined with local alums and alums attending the meeting and toured Ghirardelli Square; the tour was hosted by MSRED alums Jeff Hutchinson and Dan McCadden.

The second trek was April 29 through 30, 2010, when the students took their annual trip to New York City. On April 29, students and graduates met at the law offices of Palmer and Dodge to discuss the legal issues associated with negotiating loan documents. The next day, members of the class visited The Praedium Group, an investor in undervalued and underperforming assets; CW Capital, a loan servicing company; and Real Capital Analytics, a firm focused on real estate sales trends and investment analytics.

MSRED Students

Thirty-three graduates, members of CRE's 25th class, received master's degrees in real estate development in September 2009. Graduates are employed as entrepreneurs; with companies such as The Community Builders, Jones Lang LaSalle, and Seifel Consulting; and in family-owned, entrepreneurial ventures. In addition, three graduates opted to return to school.

Fourteen new students matriculated in the fall of 2009, including one joint degree candidate, two women and 12 men, and six international students. Four of the entering students hold advanced degrees in finance, engineering, and business administration.

In April, the center selected its 27th class of MSRED students. Twenty-nine students from a pool of 106 candidates were offered admission. Twenty-four people accepted the offer, for an 83 percent yield, reflecting a return to historical yield levels. A current MIT student was also accepted as a dual-degree candidate. The class is composed of seven women and 17 men; the average age is 30; and nine members of the incoming class are from countries other than the United States.

Graduation Weekend

On September 26, 2009, the center graduated its 25th class. The speaker for the special celebration marking the conferring of degrees was Raymond Torto, global chief economist at CB Richard Ellis. A number of activities marked the occasion. On

September 25, the center webcast an afternoon of presentations that served to highlight CRE's commitment to excellence:

- Tony Ciochetti provided a “state of the center” report.
- Yung Ho Chang, Tony Ciochetti, and architecture graduate students presented the work generated by the 1K House studio intensive.
- Senior lecturer Bill Aulet, acting director of the MIT Entrepreneurship Center, discussed leadership innovation and entrepreneurship.
- Three members of the graduating class were selected to present their theses (“The Opportunities and Challenges of Investing in India,” “Smart Space,” and “The Application of the Design Structure Matrix to the Real Estate Development Process”).

Following the webcast, current students, their families, and alumni were invited to a reception honoring the class of 2009. As part of our graduation weekend activities, the center also invited members of the classes of 1989 and 1999 to an anniversary dinner.

Professional Education

We continued to pursue the objectives identified at our 2008 program retreat (outlined below). One objective identified—the expansion of the global platform—was not pursued, as the decision was made to focus on Cambridge-based programming and to bring international participants and organizations to MIT.

- Developing programming outside of the summer months, providing year-round opportunities for participants
- Continuing to enhance the quality of marketing materials by sharpening the messaging, packaging similar courses as a unit, and being more targeted in our outreach and advertising
- Developing new offerings in response to market changes and needs

Conversations with colleagues at the Sloan School of Management and School of Engineering, the University of Southern California, Harvard, the International Council of Shopping Centers, the American Society of Training and Development (ASTD), and the International Association of Continuing Education and Training have confirmed that the recession has prompted a cut in professional development and continuing education dollars, leading to a decline in enrollments. ASTD noted that 40 percent of the respondents to a survey on the impact of the economy on learning resources reported a “high” or “very high” reduction in resources. This trend has been particularly evident in the real estate industry, which has been adversely and disproportionately affected by the downturn in the economy.

The center offered PDI courses in July 2009, October 2009, and June 2010; courses that were scheduled for March 2010 were cancelled due to low enrollment. Approximately 200 people participated in the PDI program during FY2010. Fifty-seven people attended courses in July 2009 that addressed the fundamentals of finance, innovative strategies for accessing capital, strategic thinking, advanced real estate development, and innovation

and entrepreneurship. Sixty-one individuals took four classes in October that focused on assisted living, advanced real estate finance, and loan workouts. Approximately 75 individuals attended six courses in June 2010; two June courses were cancelled due to low attendance.

Industry Outreach

In March 2010, the center held the first of its biannual partner dinners and meetings (the second is scheduled for October). Approximately 125 people attended the partner dinner on March 22. The dinner featured a presentation by professor Tod Machover on his work in music and technology. The next day focused on the theme “Innovation in Action” and included tours and presentations by Media Lab investigators, a lecture on entrepreneurial leadership by CRE faculty members Gloria Schuck and John Kennedy, and a debriefing by attending partners on the applicability of what had been learned to the real estate industry.

We have continued to incorporate the concept of partnership into our industry outreach model. The center’s value propositions to industry are the MSRED program, the research program, the professional education courses offered, and the ability to convene substantive forums of thought leaders in specific fields. To retain and expand the number of partners, we offered to renegotiate the partnership fee for existing partners and introduced two new partnership levels. Currently, the center has four partnership levels: global (\$50,000), sustaining (\$20,000), supporting (\$10,000), and affiliate (\$5,000). Each partnership level has an associated set of benefits.

Finances and Funding

The center generated \$1.64 million in income from its Institute budget allocation, tuition premium, PDI revenues, partnership fees, and gifts. FY2010 expenses were \$1.82 million, creating a shortfall of \$172,000. The three areas with the greatest revenue deviations were PDI, partnership fees, and gifts.

Significantly more dollars from the Professional Development Institute were budgeted, primarily from courses taught internationally. However, the decision was made to focus on providing professional development offerings in Cambridge. This decision allowed the center to better manage its costs by eliminating travel and additional instructor payments, but the drop in enrollments adversely affected revenue. Similarly, the recession has had a negative impact on commercial real estate, leading many of the center’s partners to reassess their partnerships. Finally, while the center’s gift target was not met, we more than doubled the number of donors; in other words, more donors gave less money. It is our hope that as the economy improves, the average donor gift will increase, and gift income will increase as well.

While revenue was significantly less than projected, the center successfully managed expenses. Overall catering costs were reduced, step payments for PDI instructors were instituted, and the PDI director successfully negotiated for professional services (e.g., discounting enrollments in exchange for a reduction in instructor costs). In addition, while the size of the class of 2010 reduced the premium income, catering and travel costs were significantly lower. Finally, the center provided more limited tuition support to graduate students.

Our continuing goal is to develop programs to stabilize the revenue available to support academic programs, nurture research, and maintain industry input. With this in mind, financial support from the real estate industry, the alumni community, and the Institute continues to be cultivated.

Recurring Sources of Operating Income

Tuition

The primary competitors for real estate graduate education are schools of business. To reflect the competitive environment and the higher level of service required by MSRED students, the provost approved charging premium tuition. The center collected \$148,936 in premium tuition during FY2010.

Professional Development Institute

The center offered courses during the summer of 2009 and 2010 and for a week in October 2009. Initially we offered 17 courses, as compared to 11 courses the previous year. We cancelled four of the courses due to low enrollment, three of the five executive classes we were scheduled to offer and a relatively new, specialized course on assisted living. Six of the 13 courses that we offered were new. During FY2010, approximately 200 people participated in the PDI program, and the program generated \$222,052 in gross revenue.

Industry Partners

The focus of the partnership program was on retaining partners and adding new ones where possible. During FY2010, we received \$197,293 in partner fees, a 13.6 percent decline from the previous year. Of the retained partners, Fidelity and Property and Portfolio Research (PPR) requested and received a fee reduction. Fidelity was billed \$10,000 and paid \$3,500, and although \$20,000 is the minimum fee for new partners, PPR's fee was reduced to \$5,000. Also, the center worked to develop a more flexible partnership program, adding two levels, the \$10,000 supporting partner and the \$5,000 affiliate partner. As of the end of FY2010, the center had 30 corporate partners.

Research

The Center for Real Estate continues to work with NAREIT to develop new types of real estate investment trust equity share price-based indexes that reflect specific property market segments. NAREIT provided a research grant to the center in FY2009 but opted to make a gift to the Commercial Real Estate Data Laboratory in FY2010.

Major Gifts and Resource Development

During FY2010, CRE received \$164,071 in gifts and added \$11,590 to its principal. The center received the largest single gifts from NAREIT (\$60,000); center founder Hank Spaulding and his wife, Ann (\$19,817); and the Borstein Family Foundation (\$10,000). NAREIT's gift supported the CREDL research consortium, the Borstein Family Foundation gift supported the center's career development program, and the Spaulding gift provided general support to the center. Donations from alumni in support of the center's 25th anniversary accounted for the balance of the gifts.

25th Anniversary Celebration

Over the 2010 academic year, CRE engaged in a number of activities designed to recognize the center's silver anniversary.

New Tagline, Home Page, and Electronic Communications

Real estate, the third largest asset class in the world, has limited integration with science and technology. The center's 25th anniversary prompted moves to revitalize the brand and reposition the MSRED program and CRE as facilitators of communication between science and technology and the real estate industry. The center's tagline was changed from "Our Graduates Build the Future" to "Leveraging Science, Developing Innovation" to reflect CRE's desire to be a conduit of information between the technology focus of much of the work at MIT and the real estate industry.

A second tagline, "The Excitement is Building," was developed as a headline for the 25th anniversary campaign. Center staff worked with the Publishing Services Bureau to create a new look for the CRE home page and for the center's email newsletters. The home page was unveiled in September 2009, and the new e-newsletter template was introduced in January 2010.

25th Anniversary Lecture Series

The 25th anniversary included a series of lectures over the 2010 academic year, an engagement campaign, and resource development efforts. The anniversary activities culminate during the fall of 2010. During FY2010, the Center for Real Estate launched the "25th Anniversary Leaders in Real Estate" speaker series with presentations by Michael Topham (Hines), Hamid Moghadam (AMB), John Hynes III (Gale), and Jonathan Rose (Jonathan Rose Companies). In addition, we held "The Excitement is Building" lectures in San Francisco, CA, and Washington, DC, pairing a member of the MSRED faculty with a faculty member from, respectively, the Department of Urban Studies and Planning (former faculty chair and department head Bish Sanyal) and the Department of Civil and Environmental Engineering (professor Franz-Josef Ulm).

Resource Development

Resource development efforts related to the anniversary are looking for contributors from groups such as major donors and alumni of the center. As part of the 25th anniversary, the center sent three major communications to all alumni, two in fall, 2009 and one in spring, 2010, stressing the importance of alumni giving.

In addition to encouraging graduates of the MSRED program to give what they can, we are also pushing participation rates and asking alumni to volunteer to support the 25th anniversary events planned for fall 2010, "friend" the center on Facebook, or attend one of the regional or Cambridge-based events. This effort is called the Time, Talent, and Treasure Campaign. The engagement campaign led to donations by over 140 alums (17 percent of the alumni group), an increase of more than 130 percent over the prior two years. In addition, more than 40 percent of alumni have attended a regional event, made a gift, or "friended" the center on Facebook; currently, the center has over 200 Facebook friends.

Alumni Activities

There are 835 graduates of the MSRED program. Approximately 20 percent live outside of the United States in over 14 countries, with significant concentrations of alumni in New England, New York City, Washington, DC, San Francisco, Toronto, Beijing, Seoul, Tokyo, and Hong Kong. The alumni group is represented by the Alumni Association of the Center for Real Estate (AACRE).

AACRE Thesis Award

In 2005, AACRE offered a \$1,500 cash award for the best student thesis. Advisors were asked to nominate students, and AACRE established a selection committee to review the submissions. In FY2010, Benjamin Bulloch and John Sullivan won the thesis award for their thesis titled “Application of the Design Structure Matrix (DSM) to the Real Estate Development Process.” The announcement was made during the graduation weekend celebration by the co-presidents of AACRE.

AACRE Case Competition

AACRE hosted a graduate real estate case competition at the Prudential Center in Boston on April 15. Teams of three to four full-time graduate students were given 48 hours to create an Excel-based pro forma and determine an acquisition price for a project. Harvard University’s Graduate School of Design team won first prize.

Spring Symposium

On May 7 AACRE held its annual Real Estate Symposium, featuring opening remarks from Peter Roberts, CEO of the Americas for Jones Lang LaSalle, and keynote speaker Congressman Barney Frank. A distinguished panel of experts from industry, government, and academia offered their perspective on the changing real estate landscape by examining the balance between government intervention and private capital as well as emerging policy driven opportunities.

Administrative Changes

In September 2009, the dean of the School of Architecture and Planning created a faculty committee to evaluate the center and its programs. The committee recommended that two independent units be created. One unit would focus on the delivery of academic knowledge relevant to the real estate industry. This unit would be responsible for all operations associated with the MSRED program. The graduate degree program will be overseen by a faculty committee; professor David Geltner agreed to head the committee.

The Center for Real Estate is the second unit and is charged with attracting and engaging members of the real estate industry, providing continuing education for both industry and alumni, and housing the research functions associated with the academic work of the MSRED faculty. CRE will be a more streamlined and focused unit and will not be responsible for producing the MSRED program. The chairman of the center will report to the dean and will create an advisory board to oversee its operations.

FY2011 will be a year of transition as the center and the MSRED program begin operations in a new format and explore innovative ways to collaborate and leverage their activities across the School and the Institute.

Personnel Changes

There were a number of significant personnel changes during FY2010. Professor David Geltner became chair of the MSRED academic committee. Associate professor Lynn Fisher took research leave at the Kenan Flagler School of Business, University of North Carolina at Chapel Hill; she resigned from MIT in June 2010 when she was offered a tenured position at the University of North Carolina business school.

The center welcomed professor Walter Torous from the Anderson School of Business, University of California, Los Angeles, as a visiting professor during the 2010 academic year. While here, Professor Torous taught a new PDI course offering, Advanced Real Estate Finance.

In July 2009, PDI program coordinator Julian Phillippi resigned to accept a position with the US State Department. After an extensive search, Aruna Joglekar was hired as program coordinator and assistant director of PDI in November 2009. Prior to joining MIT, she worked for 15 years at Linkage Inc., an organizational and leadership development firm in Burlington. While at Linkage, Aruna held a variety of positions: managing and establishing the strategic direction of the company's flagship conferences, managing the assessments group, and working as a consultant with a focus on leadership effectiveness. In addition, Aruna was the director and manager of training for Ann and Hope and the manager of training for Filene's Basement. She has been an excellent addition to the team.

Brian Anthony Ciochetti

Chairman, Director, and Thomas G. Eastman Chair

Professor of the Practice, Department of Urban Studies and Planning

More information about the Center for Real Estate can be found at <http://web.mit.edu/cref/>.