

Center for Real Estate

MIT founded the Center for Real Estate (CRE) in 1983 to improve the quality of the built environment and to promote a more informed professional practice in the global real estate industry. We are home to the first one-year master of science in real estate development (MSRED) degree, as well as an integrated suite of professional development courses. Our pioneering research investigates the real estate process from initial concept to market reality, providing breakthrough knowledge that helps organizations capitalize on today's dynamic markets and technologies. Uniting industry leaders with MIT's distinguished researchers and students, our selective industry partnership program advances the art and science of international real estate and bridges the gap between theory and practice.

Strategic Goals and Objectives

The center had three key strategic thrusts for FY2009: enhancing its educational programs, building an effective industry-supported research program, and continuing its pursuit of financial sustainability and stability.

Enhanced Educational Programs

The center is continuously working to enhance its core MSRED program and its professional development and executive education offerings. It is focusing more clearly on the real estate development process and on bringing the rigors of science to the real estate industry. The purpose is to establish the center and its educational programs as the providers of a unique, world-leading, and innovative curriculum that effectively leverages MIT's globally recognized excellence in science and technology. The Professional Development Institute (PDI) reinforces and complements the MSRED program by providing high-quality, lifelong learning opportunities to industry professionals through a series of one- and two-day courses offered throughout the year.

Industry-Supported Research Program

The center has continued to develop a program of interdisciplinary, industry-relevant, innovative, industry-supported research initiatives: New Century Development (NCD), the Housing Affordability Initiative (HAI), and the Commercial Real Estate Data Laboratory (CREDL).

Financial Sustainability and Stability

It takes \$2.5 million to run a first-rate real estate program and center. Over the last three years, the center has increased its budgetary revenues from \$1.7 million to \$1.8 million, leaving a financial gap of approximately \$700,000. Considering the nature of the real estate industry, the classical MIT model (focused on research funding) is not viable for the sustainability of the center. Top real estate programs elsewhere in the US are funded primarily by eight-figure named endowment gifts and student tuition. As a result of the Institute budget process, CRE accesses relatively little of the tuition revenue generated by its students and has a very small endowment relative to other top real estate programs and centers in the United States. To address this challenge, the center has focused on a three-legged strategy to achieve financial sustainability:

1. Increase center-generated revenues beyond tuition (from our industry outreach/partnership program, research consortia, and executive education)
2. Work with the Office of Resource Development and the Office of the Dean of the School of Architecture and Planning to pursue a gifting campaign (involving alumni and other potential donors) focused on the center's upcoming move to new space in Building 9 and the center's 25th anniversary in AY2009–2010.
3. Restructure the center's budgetary relationship with the Institute to gain increased financial support for the MSRED program

Accomplishments During FY2009

Research

Developing an innovative and industry-relevant research program is an important element of the center's strategic actions. We 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.

Housing Affordability Initiative

Under the direction of professor Lynn Fisher, the focus of HAI was refined to promote a body of scholarship for informed public discussion of regional housing issues and improved public and private decision making through investigation and examination of the following:

- The supply of housing and its attributes—proximity to jobs, school quality, and safety
- Housing policy and land use regulation
- Relationships among housing markets, communities, and both local and regional economic development

HAI brings together and engages:

- The academic community at MIT and at other universities
- Students of all disciplines committed to housing research and practice
- Private developers, real estate investment trusts (REITs), mortgage industry participants, and private equity funders
- Housing policy, planning, and government officials
- Advocacy communities as well as legal and environmental professionals

HAI supported a doctoral student for one semester and employed several master's students throughout the year.

Maine Affordability Study

In FY2009, HAI issued a report on Maine housing under the direction of principal research associate Dr. Henry Pollakowski. The report stated: "In Maine, moderate-income working households are increasingly finding adequate housing to be out of

reach; and very low income households continue to have a difficult time affording adequate housing.” The housing stock has declined, income levels have not kept up with the rise in housing costs, and “there is a large number of elderly households in Maine with severe housing affordability problems.”

Oversupply of Housing

Under the direction of Lynn Fisher, HAI began work in spring 2009 on the dilemma of housing supply and public policy responses to the housing market crisis. Early results were presented in the Department of Urban Studies and Planning’s Housing, Community and Economic Development speaker series. This work was partially supported by the Speedwell Foundation.

Update of Chapter 40B Process and Outcomes

Professor Lynn Fisher completed a report for the Rappaport Institute updating her previous work examining the results of Massachusetts’ Chapter 40B law, which allows affordable housing projects to be granted an exemption from local land use regulations in communities that fail to meet state affordability targets. The report is based on a survey of 144 cities and towns in the Boston area assessing which kinds of projects are built with little controversy, which are substantially delayed, and which never get built. Projects that go through the appeals process are often not built because of the added cost (in time, dollars, and goodwill) associated with pursuing the appeal. This work was presented at the Boston 101 speaker series in the fall of 2008 at the Rappaport Institute.

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 Development Laboratory continued to pursue the development of commercial property market information. Real Estate Analytics LLC (REAL), State Street Global Markets, and Real Capital Analytics (RCA) support the Moody’s/REAL Commercial Property Price Index (CPPI) with data and financial resources; the center has been working with the National Association of Real Estate Investment Trusts (NAREIT) to generate a suite of indexes; and the center has continued to produce the Transaction-Based Index using data provided by the National Council of Real Estate Investment Fiduciaries. These indexes have been cited repeatedly by news sources such as Bloomberg, the *Wall Street Journal*, and CNBC.

Commercial Property Pricing Indexes

During the latter part of FY2006 and the beginning of FY2007, the center reached an agreement with RCA to develop a methodology for creating periodic price-change indexes. The RCA-based CPPI is a periodic same-property round-trip investment price change index of the US commercial investment property market based on RCA data. During FY2008, an affiliate of RCA partnered with State Street Research to create REAL. The group partnered with Moody’s Investors Service, and each month the CPPI is published. After publication of the index, the data is provided on the center’s website as a service to the real estate academic and industry research communities. To fund the monthly production of the CPPI, the center had a service agreement with REAL that expired on December 31, 2008.

REIT-Based Indexes

During late FY2007, the center began discussions with representatives from the National Association of Real Estate Investment Trusts (NAREIT) for the construction of commercial property price indexes based on share price movements of REIT stocks. This sponsored project research agreement was finalized in June 2008, funded for \$193,873, and concluded February 28, 2009.

New Century Development

In FY2009, the NCD initiative was expanded to include a focus on promoting sustainable building development in the real estate industry. Toward this end, professor Tony Ciochetti, CRE chairman and director, has been working with professor Yung Ho Chang, head of the Department of Architecture, to develop the “1K House.” Professors Ciochetti and Chang co-taught an architectural design studio focused on developing proposals along two simultaneous tracks: the design of the architectural unit and the development of a business and financing model to make the project feasible in its intended market(s).

The 1K House is aimed at improving living conditions in parts of the world where resources are scarce, infrastructure does not exist, and natural disasters often strike. The 1K House synthesizes design and economic intelligence to solve the world’s increasing need for low-cost, livable, and sustainable housing.

The first phase of the 1K House project focused on design and constructability issues and research based on the principles of affordability, livability, and sustainability. Students were charged with honoring the \$1,000 price cap on the houses, making the homes affordable to a larger, poorer population group. Innovative designs were also required to address infrastructure limitations and the need to harvest energy and treat waste in a self-sustained way. As part of the next phase, design proposals will be presented to representatives from Skanska, one of the center’s industry partners and an international construction company, to assess feasibility and create a full-size working prototype.

Education

Master of Science in Real Estate Development

Unlike students in other academic programs, the center’s MSRED students are generally enrolled during the summer session. It is during this time that the bulk of their thesis work is completed. During 2008, the center enhanced the programming available to students in order to improve the value provided for their tuition dollars. In addition to monthly thesis seminars, students were allowed to take noncredit professional development courses free of charge, and additional career programming was provided (workshops on innovative finance and innovations in development and a company presentation by the Boston office of BlackRock).

In November 2008, we held a retreat to discuss the MSRED program. The director, the associate director of education, and the managing director participated in the retreat, which was facilitated by Leslie Kagan of Kagan Associates. The group reviewed the aspects of the MSRED program that seemed to be working well and our goals for the program. We reaffirmed our commitment to having a global platform, greater

integration of our educational programs (MSRED and PDI), improved coordination between instructors, modernized facilities, additional faculty lines, and improved faculty interaction within the center and across the Institute.

A new mini-course on domestic/US real estate was offered during late May and early June. The course was led by center chairman and director Tony Ciochetti. A group of nine students visited organizations and sites in San Francisco, CA; Portland, OR; and Chicago, IL. Over the course of a week, students visited nine real estate projects, met with representatives from 12 companies for presentations, and visited DePaul University. The class was created to give students a better sense of the diversity of projects, approaches, and challenges for real estate development within the US.

Regional Treks

This year the MSRED experience was enhanced by two treks. The first was in October 2008. Students attended the Urban Land Institute's annual meeting in Miami, FL, from October 27 to October 30. While attending the meeting, students also were hosted by The Related Companies and toured two of Related's high-end residential buildings. The second trek was April 30 through May 1, 2009, when the students took their annual trip to New York City. While in Manhattan, they attended a panel presentation organized by New York-area alumni, "When the Dust Settles: Industry Leaders Discuss the Future of Real Estate," and visited BlackRock, The Durst Organization, Forest City Ratner Companies, and Real Capital Analytics.

MSRED Students

During FY2009, the class of 2008 graduated, the class of 2009 matriculated, and the class of 2010 was admitted.

Class of 2008: Thirty-four graduates, members of CRE's 24th class, received master's degrees in real estate development in September 2008. The center received 107 applications for the class of 2008 and accepted 44 individuals; 38 people enrolled, for a yield rate of 86%. (Four members of the class of 2008 graduated at a later date.) Graduates are employed in the public sector, at investment management and development companies, and as entrepreneurs. Employers include Hines, Colony Realty, Chelsea Neighborhood Development, New York State, and family-owned and entrepreneurial businesses.

Class of 2009: Ninety-one people applied to the class of 2009, 40 were accepted, and 33 matriculated in the fall of 2008. This group included three joint-degree candidates, six women, 27 men, and 13 international students. Eight of the entering students hold advanced degrees in architecture, finance, engineering, and business administration. This class will graduate in September 2009. The yield rate for the class of 2009 was 80%.

Class of 2010: In April, the center selected its 26th class of MSRED students. Twenty-nine students from a pool of 125 candidates were offered admission. To date, 15 people have accepted the offer, for a 52% yield. A current MIT student was also accepted into the class of 2010 as a dual-degree student. The class is composed of three women and 12 men, the average age is 31, and six members of the incoming class are from countries other than the United States.

Graduation Weekend

On September 27, 2008, the center graduated its 24th class. A number of activities surrounded the occasion. On September 26, the center webcast an afternoon of presentations that served to highlight CRE's commitment to excellence:

- Center chairman Tony Ciochetti provided a "state of the center" report.
- Professor Rahul Mehrotra (Architecture) discussed "Urban India: Questions for Urban Design."
- Professor Judy Layzer (Urban Studies and Planning) presented "Real Estate Development in Sustainable Cities."
- Three members of the graduating class were selected to present their theses ("Real Options: Vertical Phasing in Commercial Real Estate Development," "Show Me the Money: A Study of Real Estate Development Returns," and "Stimulating Nigeria's Emerging Real Estate Markets").

Following the webcast, current students, their families, and alumni were invited to a reception honoring the class of 2008. As part of our graduation weekend activities, the center also invited members of the classes of 1988 and 1998 to an anniversary dinner. The speaker for the special celebration marking the conferring of degrees was M. Emre Çamlıbel, general manager of Soyak Yapı, Turkey.

Professional Education

Building on the successes of 2006 and 2007, the center hired a program coordinator, Julian Phillippi, to focus exclusively on professional development, executive education, and custom programs. Phillippi joined the center in June 2008. In October 2008, we held a program retreat to establish goals and objectives; the following areas of focus were identified:

- Developing programming outside of the summer months, providing year-round opportunities for participants
- Expanding the global platform
- 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

As part of a three-pronged approach to improve marketing and communication, we:

- Renamed the program the Professional Development Institute (PDI)
- Upgraded the look and feel of the program brochure while reducing printing and postage costs
- Redesigned the PDI web pages for greater usability and a more professional look
- Switched to Constant Contact for our email service and created a custom product that provides timely and relevant content and promotes PDI courses

During FY2009, we also made the decision to have the PDI program year coincide with the calendar year. With this change, the 2008 program year ended December 31, 2008, and the 2009 program year started January 1, 2009. As of December 31, 2008, we had offered eight courses as part of the 2008 PDI program year; three of the eight courses were in New York City, with a total attendance of 360 people. During the first half of the 2009 PDI program year (ending June 30, 2009), we accomplished the following:

- Expanded the global program into the Middle East
- Offered custom executive education in Kuwait
- Participated in a Dubai symposium
- Taught at the Higher College of Technology in Abu Dhabi
- Worked with Masdar, a sustainable city under development in Abu Dhabi to discuss possible professional development offerings

During March 2009, 96 people attended four courses: Fundamentals of Sustainability; LEED; Fundamentals of Finance; Innovative Strategies for Accessing Capital; and Loan Workouts. With the exception of Fundamentals of Finance, all of the March 2009 courses were new. Attendance for the summer courses is down significantly (170 in 2009 versus 346 as of June 30, 2008). This decline is reflective of the overall drop in corporate funds allocated to professional development, general economic woes, and the disproportionate impact of the economic decline on the real estate industry. Nonetheless, participant response to the courses has been very positive. We have also expanded the roster of instructors, increased our marketing outlets, and improved the effectiveness with which we use email marketing tools.

Industry Outreach

We have continued to incorporate the concept of “partnership” into our industry outreach model. The center’s value propositions to industry are our MSRED program and our research program, as well as the natural byproducts of these programs, such as the center’s ability to conduct professional education courses and convene substantive forums of thought leaders in specific fields. However, FY2009 was also characterized by one of the harshest economic environments in years, prompting us to revisit the partnership model on a temporary basis. To retain partners, we offered to renegotiate the partnership fee. Four companies requested, and were granted, a reduction. In FY2009 partnership fees totaled \$228,470, a 41% decline over the previous year.

Forums on Issues and Innovations in Real Estate

The goal of the Forums on Issues and Innovations in Real Estate (FIRE) events is to engage and communicate with members of the real estate industry about topics that are timely, noteworthy, and significant. In February, CRE partner Landmark Properties hosted a FIRE event in Dubai, United Arab Emirates. Center chairman and director Tony Ciochetti joined Mohammed Sultan Thani, assistant director-general of excellence and organisational governance of the Dubai Land Department; Rob Lovett, chairman of Landmark Advisory; and Kerrie Alder, head of real estate at Emirates Investment Services, as panelists discussing the state of the real estate market in Dubai. Approximately 150 people attended the event.

Finances and Funding

The center has made tremendous strides relative to its vision and goals, and the execution of our core strategies has entailed an approximate doubling of the annual rate of expenditures since 2002. The majority of this increase has gone into creating substantive educational and research products and services that reflect MIT's unique strengths and its mission to use knowledge to improve the world. In the FY2009 budget, the center projected stabilized expenses of \$2.5 million, reflecting the center's continued commitment to global outreach and cutting-edge research.

The center generates recurring income of approximately \$1.8 million from its Institute budget allocation, tuition premium, PDI revenues, partnership fees, and gifts. With expenses of \$2.5 million, there is a financial gap of about \$700,000. Our continuing goal is to develop programs to increase annual, ongoing contributions from the center's three primary sources of financial support: the Institute, the real estate industry, and the alumni community.

Starting in FY2005, the center was allowed to charge a premium tuition, keeping all revenue above MIT's base tuition amount. In FY2009, this premium generated \$250,562 in income, fees from our industry partners were \$228,470, and revenue from PDI was approximately \$243,000 (a decline of 58% from the prior fiscal year). Clearly, the downturn in the economy has impacted the center as organizations are scrutinizing their balance sheets.

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 a premium tuition. The center collected \$250,562 in premium tuition during FY2009.

Professional Development Institute

In addition to courses offered during the summer of 2008 and 2009, the center offered courses in Kuwait during February 2009 and in Cambridge, MA, during the Institute's spring break in March. Eleven courses were offered, four of which were new. During the 2009 program year, which covered the February, March, and June courses, approximately 300 people participated in the PDI program. With the formalization of PDI in calendar year 2009, we also made an accounting change. Instead of recognizing income at the time it was received, we recognized it only after services had been delivered. As a result, revenue for courses that were offered in July 2009 was deferred until FY2010. This change led to the deferral of \$34,587. During FY2009, PDI generated \$247,231 in gross revenue.

Industry Partners

The focus of the partnership program was on retaining existing partners and adding new ones where possible. During FY2009, we received \$228,470 in partner fees. Of the

retained partners, Fidelity, Jones Lang LaSalle, Taurus Investments, and Property and Portfolio Research (PPR) requested and received a fee reduction. Fidelity was billed \$10,000 and paid \$3,500; Taurus paid \$50,000 in 2008 but paid \$10,000 in 2009; Jones Lang LaSalle was invoiced for \$20,000 but paid \$10,000; and, although \$20,000 is the minimum fee for new partners, PPR's fee was reduced to \$5,000. As of the end of FY2009, the center had 28 corporate partners.

Research

The Center for Real Estate's work with NAREIT to develop new types of REIT equity share price-based indexes that reflect specific property market segments culminated in a sponsored project with NAREIT for \$193,000 in direct and indirect costs. The funding for this project was received in June 2008 and was completed in February 2009.

Major Gifts and Resource Development

During FY2009, CRE received \$148,935 in gifts and added \$37,567 to its principal. The majority of the gifts were from NAREIT (\$40,000), the Speedwell Foundation (\$28,000), and the Borstein Family Foundation (\$10,000). Speedwell and NAREIT made gifts supporting the HAI and CREDL research consortia; the Borstein Family Foundation supported the center's career development program; and additions to the Blake Eagle Fellowship accounted for \$36,425 in additions to principal.

Planning is underway for the center's 25th anniversary. The Executive Committee has been working with the School's new assistant dean for resource development, Barbara Feldman, to develop a fundraising strategy.

Alumni

During FY2009, alumni gifts totaled \$59,435. There are active regional chapters of the Alumni Association of the Center for Real Estate in San Francisco, New York, Hong Kong, and Washington, DC. Each chapter held events throughout the year. The group in Hong Kong is new. The Washington, DC, group is being revived and had its "inaugural" event featuring David Geltner, former center director and current director of research, on December 1; Hong Kong had its inaugural event in March. On April 24, the Boston-based group hosted a symposium titled "Is There Light at the End of the Tunnel?" The keynote speaker was former Massachusetts governor Michael Dukakis. The New York chapter hosted a number of speakers and receptions over the course of the year, and in May the San Francisco group hosted the students traveling as part of the US Real Estate course.

Personnel Changes

There were a number of significant personnel changes during FY2009. Chairman Tony Ciochetti became the director of the Center for Real Estate and is now chairman, director, and holder of the Thomas G. Eastman chair. Professor David Geltner was on sabbatical during the 2008–2009 academic year and assumed the role of director of research for the center. The center welcomed professor Dean Gatzlaff from Florida State University as a visiting professor during spring 2009. While here, Professor Gatzlaff taught one of the center's core courses, 11.432J/15.427J Real Estate Capital Markets.

Amy Sargent was hired on a part-time basis in October 2007 to provide administrative support to HAI and the work funded by NAREIT. Ms. Sargent resigned in May 2009 to pursue new opportunities.

In June 2008, Najat Kessler was hired as the administrative assistant for the chairman; in December Ms. Kessler resigned. After an extensive search, Ms. Elizabeth Mathieu was hired as executive assistant to the chairman in April 2009. Elizabeth has worked for the law offices of Frank D. Kirby, Prousalis & Papantonakis, and George Katsarakes. In addition, she was the office manager for TLT Construction and Presage Information Technologies. She has strong administrative and organizational skills and a “take charge” approach to work. 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/cre/>.