

CENTER FOR REAL ESTATE

the MIT Newsletter

The Global
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Education

Who is Winning the Capital Race?

It's a lot more fun to talk about sources of capital for real estate these days than it was five years ago. Members of the Center for Real Estate gathered for their semi-annual meeting in Cambridge in May to consider the question, "Are the Public Markets Winning the Capital Race?" That is, will Wall Street provide more money for future real estate transactions than traditional sources like banks, insurance companies and pension funds and newer sources like private opportunity funds? The answer is pretty clear, the capital markets are providing an increasingly large share of the money coming in; the fun is in watching the indicators climb.

businesses to securities." This is a secular shift that will not fade when the business cycle turns, Aldrich argues. He is very optimistic about the immediate future of real estate. Due to the current underbuilding "excess inventory is being burned off very rapidly. . . I thoroughly expect to see office rents start to explode" within a year or two.

Pension funds, which dominate the institutional commercial real estate market and whose invest-

ments Aldrich's firm has managed for the last 15 years, are rapidly moving their real estate dollars from commingled funds and direct property investments to public securities and opportunity funds. The outlook for pension fund advisors is one of transformation, shrinkage and consolidation. "The environment is changing rapidly," says Aldrich "but there is the potential for great opportunity."

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Nomura's Ethan Penner told Center members that when "too many innovations creep into the CMBS market, it will be time to retreat."

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The Victory of Unregulated Finance

Peter Aldrich, Co-Chairman of AEW Capital Management, sees the growing importance of capital markets in real estate as part of the "ultimate victory" of unregulated financial institutions over "the old regulated financial systems of the New Deal—thrifts, commercial banks and insurance companies—whose capital was too constrained and too expensive. . . Americans are shifting their money from retirement savings in non-publicly-traded



NEWS NOTES...

Arthur Solomon, Managing Director of member firm Lazard Freres & Co., LLC and head of the firm's Real Estate Group, addressed the graduates and their families at the Center's Celebration in Honor of the Class of 1997, on October 4. Mr. Solomon was once an MIT



professor and Director of the MIT-Harvard Joint Center for Urban Studies. In addition to his distinguished career in private industry and academia, Mr. Solomon also served in the Johnson Administration on the President's Task Force on Domestic and Intergovernmental Affairs, and later as

Executive Vice President and Chief Financial Officer of the Federal National Mortgage Association (FNMA). His speech is available upon request.

Assistant Professor of Finance *Tim Riddiough's* paper (with co-authors Paul Childs and Alexander Triantis) on Mixed Uses and the Redevelopment Option was published in the Fall issue of *Real Estate Economics*. An early version was published by the Center as a working paper (WP 56). Tim was also a featured speaker at the Commercial Real Estate Finance and Securitization Forum and at The Appraisal Institute in October.

The Alumni Association of the Center for Real Estate (MIT AACRE) is co-sponsoring a fall real estate seminar again this year with ERE Yarmouth. ***Real Estate Investment in the New Millenium*** will be held November 18 from 11:30 to 5:30 at Boston's Meridien Hotel and features a strong roster of speakers including Michael Fascitelli, president of Vornado Realty Trust, and William Erbey, CEO of member firm Ocwen Financial Corporation.

Faculty member *Gloria Schuck* was the keynote speaker at the Rockwell Automation Seminar in Atlanta in February. She also led a session on Reinventing the Operating Company at the Pension Real Estate Association (PREA) Institute in Berkeley in June. The PREA Institute will be back at MIT next June.

Larry Bacow, who has been associated with the Center in many capacities since its founding, was recently appointed the Lee and Geraldine Martin Professor of Environmental Studies. Nobel prize winner Mario Molina was the previous holder of this chair. Larry relinquished his position as Chair of the MIT faculty in June. "I have enjoyed the opportunity to help influence the direction of MIT during these challenging times," he said. Milestones he regards with satisfaction include "having a significant hand in helping to shape the faculty retirement incentive program last year; negotiating a resolution to the ROTC controversy; getting a program off

the ground to renovate older classrooms; restructuring the Institute writing requirement; and helping launch a comprehensive review of student life and learning on campus." Surely real estate law is simple in comparison.

Charles (Hank) Spaulding, now Honorary Chairman of the Center, received the 1997 Landauer Award from the Counselors of Real Estate in recognition of his "exceptional career as a real estate counselor" and his "pivotal role in the development of MIT's Center for Real Estate." Hank was also honored in June by the Greater Boston Real Estate Board and the Building Owners and Managers Association which gave him their "Legends" award.

Research by housing economist *Henry Pollakowski*, who has been a visiting scholar at the Center since last fall, contributed in a major way to the cover article of the May 4 New York Times Magazine on "Why It's So Hard to Rent an Apartment." Results of his research on the potential impacts of rent decontrol in New York City are published in a working paper (WP 67). He has also investigated the effects of the 1994 rent decontrol in Boston, Cambridge, and Brookline, MA. (WP 70 forthcoming in November), and published an Op Ed piece in the New York Times.

MacNeil Apointed Associate Director

Kathleen MacNeil, MSRED '88, assumed the post of Associate Director of the Center for Real Estate in March, replacing her MIT classmate Patricia Brady who is



heading up MIT's new Human Resources Practices Development team. MacNeil is responsible for operations of the Center, career services for current students, and liaison with graduates. Prior to joining the Center, she was a project manager for Macomber Development Associates where

she built the Hyatt Conference Center and Hotel at Logan Airport among many other projects. Most recently, she has been a real property project manager for the Massachusetts Water Resources Authority. She has also served on the Steering Committee of the Alumni Association of the Center for Real Estate. She earned a BS in Architectural Engineering from the Wentworth Institute in addition to her degree from MIT.

MacNeil finds it a particularly good time to be back at the Center because of the recent growth of public real estate markets and the consolidation of real estate firms. "When you work in the industry, you tend to be involved in your deal," she says. "You don't see the industry as a whole as we do here." The broader perspective is exciting to think about, as well as requiring adjustments at the Center to keep pace. "We need to make sure our membership continues to represent the full spectrum of the industry as

it changes," she notes, "and, as ever, we must see that the services we provide continue to be useful and appropriate."

In terms of her work with students and alumni, she explains that she is reorganizing parts of the Center's career support function to provide "the right kind of career services so students get a good grasp of where their skill sets fit in the industry." She feels it is important to continue to work hard to inform both potential applicants to the Master's degree program and potential employers, about the depth and flexibility of the program. "I would like us to be as well known outside New England as we are in this region. It would benefit our alumni who are already out in the industry, as well as recent graduates." To that end, the Center has recently updated and redesigned its Master's degree program brochure, and published a new Career Bulletin illustrating the variety of ways alumni have used their MIT education to enhance their careers.

"I have been a believer in the Center since I first came here as a student," concludes MacNeil. "I am really happy to have the opportunity to come back and work on making a solid program even better."

Both publications mentioned above are available upon request.

Fellowships for the Class of 1997

Norton Wins AACRE Scholarship

Vincent Norton, Jr., '97, was awarded the second Alumni Association of the Center for Real Estate (AACRE) scholarship, a \$1000 award, for his essay on opportunities in brownfields for small scale developers. Norton, who has a BS in Business from Boston University, was a senior property accountant at Whittier Partners in Boston before coming to MIT. He has just accepted a position as a project manager-finance with Forest City Development in Cambridge. Norton was also awarded a \$1000 scholarship by the American Counselors of Real Estate.

CRE Scholarship for Cannuscio

Aubrey Cannuscio, '97, also received a \$1000 scholarship from the American Counselors of Real Estate. Cannuscio, a Long Island native, was an asset manager for Aldrich, Eastman & Waltch before MIT. He is currently assessing job options in a number of areas. "There are tons of opportunities," he said, "but I don't know if I'm playing Wheel of Fortune or Russian Roulette."

Geraghty Fellowship to Jammen

Michael Jammen, '97, was this year's recipient of the Thomas H. Geraghty Memorial Fellowship. This endowed fellowship for a Boston-area native has now grown to yield almost \$2500 annually. Jammen, an accounting graduate of Bentley College, was formerly a senior asset manager with Koll Real Estate Services in Stamford.



Cordell Lietz: the Compleat Angler

Cordell Lietz '89 is the Senior Vice President of Acquisitions and Institutional Capital for The Taubman Company, a position he calls a jack-of-all trades function



Cordell Lietz credits his MIT classmates who shared their varied real estate experience with helping to broaden his view of the industry.

covering everything from single asset purchases to mergers and acquisitions, including sourcing deals, negotiating terms, and closing transactions. As far as successful acquisitions go, Lietz says, it's not just how you buy a property but what you do with it once you own it. "I like to say I catch them; other people clean them and fry them," he says, emphasizing that he is only one part of the very experienced and expert Taubman team. In addition to his acquisitions work, Lietz is his firm's liaison with institutional investors and raises capital for the company. He is an active board member of the Pension Real Estate Association and was the co-chairman of their spring conference. He is also on the editorial board of the Journal of Real Estate Investment Trusts; on the Urban Land Institute Council; and an active member of ICSC.

Lietz' work is so varied there is almost no such thing as a typical day, a situation he relishes. In a rapidly consolidating industry,

Taubman is well positioned to take advantage of opportunities that present themselves and Lietz spends a lot of time reviewing possible acquisitions, touring markets, and visiting retail properties, both those that belong to Taubman and the competition's. "Part of my job is to do strategic thinking for the business—questions like where is the retail industry going? and how are changes in the competition affecting our business?" Lietz sees the current pressure to grow as a natural outcome of the maturing of the real estate industry. "Consolidation is inevitable; real estate is not unique. The advent of securitization proves this," he says. Lietz has not fully bought into Sam Zell's vision of a future comprised of only 20 super-REITs, but he is a believer in the increased sophistication and greater financial flexibility offered by bigger entities. "There will still be some private real estate in pension fund holdings," he says. "But the core will be mainly public. Public is easier for the investor; you are buying management along with the assets." Public real estate returns need to be competitive with other public market equities, but private real estate should command a premium—"a venture-capital-type return"—to compensate for the lack of liquidity and the increased risk. "Private real estate will continue be more focused on higher-yielding returns —international, distressed properties, etc.—and will typically incorporate

more leverage."

While Simon DeBartolo is the biggest REIT in the retail industry, Taubman is a blue chip with the highest sales per square foot and a reputation for the highest quality. "Size is good," remarks Lietz. "But the market also rewards quality. It is a safer, more secure investment. In a bull market, it's easy to hide mistakes, but when the downturn comes, the better quality properties and companies will survive."

Lietz enjoys the pace of activity in real estate today. "I love what I'm doing. There is a new challenge every day. It is fascinating being part of a rapidly changing industry," he says. Events happen fast in the public market. Lietz points out that David Simon's hostile takeover of RPT, a deal worth \$1 billion, took only 25 days to complete. "It's more fun to run with the big dogs than sit on the porch," he concludes.

Lietz grew up in the real estate business in Calgary, Alberta and studied real estate and design at Arizona State. He was a project manager for a business park in Phoenix and then directed corporate development for Ramada, Inc. before coming to MIT. "My vision was to return to Seattle and become a developer," he says, but not only did the real estate cycle turn against that vision, but Lietz' horizons broadened. "Larry Bacow [then Director of the Center] encouraged me to play to my weaknesses and focus on finance," he explains. As a



Was It Worth It?: A Testimonial

Ed. Note: This excerpt was extracted from an article by Jim Heid '94 in the 1997 MIT/CRE Alumni Newsletter.

When I left MIT, I took a position in San Francisco with EDAW, a global consultancy focused on resolving strategic land and community issues. Our work is very diverse, ranging from base closures, planning and design for global events such as the 1996 Olympics, large scale, mixed-use urban design and redevelopment, to large scale environmental projects such as watershed planning and integrated resource management plans. Prior to joining EDAW, I had worked in a variety of similar firms of varying scales. In 1986, I started my own firm with two other senior partners, which turned out to be a terrible time in the regional economy. While I liked the idea of having my own firm, the nature of consulting relies on having great depth of resources and market penetration to ride out the inevitable cycles that come with economic changes. The position I'm in now—Director of Development—allows me to play a very entrepreneurial role in a company that has unmatched resources in terms of staff, finances and breadth of experience.

One of the biggest surprises for me since leaving MIT was how much of my real estate training I have been able to apply. I was afraid that if I didn't go into development specifically I would feel that my tuition was a waste. But what I've been pleased to find is the incredible transferability of my classes to any assignment I've had. I took quite a few classes at Sloan [School of Management] which I really enjoyed and have made good use of. I'm currently involved in the acquisition of a small company in Hong Kong which we will own under a

result, Lietz began to view real estate as an investment on a national and global scale rather than just bricks and mortar. After graduation, he joined ABP, the Dutch pension fund, to open a Boston office and acquire US properties. He moved to the operating side to Taubman in 1994 after ABP decided (in part based on a strategic plan Lietz prepared) to hold real estate through stock purchases rather than directly.

Lietz tempers his enthusiasm for his work with concern about the amount of money looking for real estate investments today. He quotes company founder, Alfred Taubman: "deals are supposed to chase the dollars, not the other way around." Alluding to a recent acquisition by a competitor who paid 20 percent above net asset value, he wonders if the price was too high. "It's called strategic investing, but you run the risk of losing sight of underlying real estate fundamentals. It is hard to justify the pricing." He himself has been working for many months on a large acquisition which should close this month. This brings to mind the 'winner's curse,' an auction term he first learned about at MIT: the good news is you won; the bad news is you may have paid too much. "However, we should be able to pay more than our competitors because our company can do more with the property," he muses. "The people in the company who clean them and fry them—they are very good cooks."

separate holding company and many of the finance and management classes have been extremely useful in this effort. Also, given our broad reach across so many time zones and with so many people constantly on the road, technology plays a critical role in how we operate and communicate. Some of the classes that dealt with organizations of the future have been very valuable in helping me help to push the technology/organization agenda. My thesis which dealt with affordable housing in resort communities turned out to be a great experience and has had some meaningful residual value. The Urban Land Institute asked me to write an article for Urban Land Magazine and a small section for their upcoming Resort Development Handbook. They also published the entire thesis as a part of their Working Paper Series—the first academic paper to be published by them.

More than any of the curriculum, the biggest benefit is how the program has changed my perspective on the design and positioning of projects. As a profession, designers have done a poor job of understanding the business requirements and strategy of a development effort. In respect to my concern about lack of innovation given large investors' narrow focus on return, I think some of the blame can be placed on members of the design profession who have stood outside the decision process because they have failed to try to understand the realities and complexities of financing a project. It is my hope that through my background in design and my education at MIT/CRE, I can bridge that gap so we get to a win-win scenario for all parties involved. And then we'll have some really good models for everyone else to replicate!

It's Still Location, Location, Location

Adam Jaffe, Associate Professor of Economics at Brandeis University was the dinner speaker at last November's semi-annual meeting of members of the Center for Real Estate. Here is a synopsis of his presentation.

I argue that technological progress, even while fostering quicker and cheaper communications and transportation, will make the location of firms increasingly important. In an advanced knowledge-based economy like ours, value creation will increasingly depend on the application of technology and the effective economic use of knowledge. Face-to-face contact is important to the transfer of knowledge.

An old question is why are we not evenly distributed across the landscape; why do we have cities? One answer is agglomeration effects; that is, you can do things with a mass of people that you can't do with a small number. You can support theater, ballet, and museums, for example. I conjecture that as we get richer the kinds of goods we are going to demand more of are the kinds of things subject to agglomeration effects. They are services for which you have to come in contact with the provider—things you can't ship.

We find that certain kinds of economic activity are quite concentrated in specific locations, e.g. most rugs are made in Georgia. The economist Alfred Marshall suggested three explanations—access to 1. a pool of specialized labor; 2. intermediate goods/components, 3. the flow of knowledge. If knowledge itself tends to be geographically localized, there will be significant benefits to firms in a particular industry to concentrate.

I want to focus on the flow of knowledge. Technological progress is a cumulative process. Every time someone solves a problem, they make easier the solution to the next problem. You may sell your better mousetrap cheaper but you also contribute to the next mousetrap advance. And even in the world of the internet, knowledge flows best by face-to-face communication.

There is some evidence for this: researchers have found that industries with a higher R&D input and a more educated worker pool are the most concentrated. Researchers have also found that firms tend to hire university consultants from



nearby institutions for face-to-face communication. The MIT licensing office statistics show 40% of all its licenses have been granted to in-state firms. Sixty percent of licenses to new firms go to local start-ups. Ongoing communication is necessary during new product development.

Initial inventions lead to subsequent inventions. Research using data from patents confirms this. Patents from five countries cited papers disproportionately from their own country. Why? It seems that using the knowledge from an earlier development requires a more thorough understanding of the processes involved than just reading the paper. In my own research on knowledge flow I've found that US inventors react much earlier and more strongly to US patents than inventors from any other country. The same pattern of localization holds even more strongly for the New York metropolitan area.

Will localization still be important in the future? Certain activities that were localized will no longer be; the back offices of financial

firms have moved to India. But those activities will be less important for a high wage economy. For the US, creating value by manipulating knowledge will be increasingly important and that thrives on face-to-face contact. Thus locality will continue to be a determinant of economic growth.

A synopsis of the November Members' Meeting, "Technology and the Future of Real Estate," is available upon request. It includes highlights of presentations on computers and telecommunications, business organization, technology and buildings, and inventory and logistics by MIT experts.



MIT Real Estate Finance Professor Tim Riddiough has found that factors like the loss of corporate focus to grow larger and larger REITs. Loss of corporate focus from rating agencies are factors to look out for.

Real Estate is Just Another Asset

Ethan Penner, President of Nomura Asset Capital Corporation and one of the key inventors of the commercial mortgage-backed security (CMBS), noted that over the last 25 years virtually “every asset class, including credit card loans and auto loans . . . has found its way from the portfolio of a bank or an insurance company into the world of securities.” Commercial real estate held out against the trend until it lost almost half its value in the early '90s and “all of a sudden it traded to a cash flow-based valuation and the marginal dollar which it attracted came from investors who were looking at the broad landscape of investments.”

Capital markets are cost-efficient providers of funds in part because “securitization allows the investor to much more directly tailor where he or she wants to be on the risk-reward curve.” Assets can be carved up into categories with different loan-to-value ratios, priced differently, for investments seeking particular risks and returns. The result was that “an extraordinary amount of new capital has found its way into the market” for CMBSs, capital that found real estate too risky under the old pricing.

Penner reminded the audience that as the CMBS market matures, the pressure increases to create profits. “Folks on Wall Street are going to come up with as many innovations and tricks as they can to protect their profit spread.” Since investors have already been stung once by too-risky derivatives in the residential mortgage-backed securities market, Penner thinks the threat in the CMBS realm is more likely to come from unforeseen prepayment as originators lower their prepayment standards to attract business. “Human nature being what it is, I think we’ll get to that point,” he says.

A REIT is An Operating Business

Marty Cicco, Director of Merrill Lynch Investment Banking Group, argues that though it is common to refer to ‘the REIT industry’, the industry is real estate—REIT is simply the form of the investment. “We try to value it as a business. That’s a radical change. Before that, real estate was viewed as an asset class—an inflation hedge with inverse correlation to fixed-income securities.” As an operating business, the market can value a REIT in terms of its “ability to generate new fee strings, new asset value, and growth within the organization.”

Cicco regards public information on property and transactions as “the critical component that has driven the growth”. It is also one key to the ‘market discipline’ that all the speakers referred to. The other is the investment grade ratings assigned to REIT corporate debt by rating agencies. In Cicco’s view, instead of the traditional boom-bust real estate cycle, “the cycles will perhaps be more frequent, but a lot less severe.”

Consolidation is an aspect of the REIT business that Cicco believes will become more important. One factor driving it is discrepancies in multiples in trading price. Another is generational change, as some of the old family firms like DeBartolo solve the succession issue by going public “Still the ultimate question is, how many REITs do we need?”

An Academic Splash of Cold Water

The last speaker, MIT Finance Professor Timothy Riddiough, observed that all the enthusiasm for public markets has been generated in a real estate bull market. When the cycle turns, some weaknesses may come to light. One is in the area of REIT consolidation driven by the lure of a lower cost of capital from increased economies of scale

and higher credit ratings. However, to attain size, firms may lose focus, and evidence is clear that focused firms outperform more diversified ones.

Another concern is that many REITs have issued unsecured debt because it is relatively cheap and flexible. MIT student research has indicated that any cost saving through issuing corporate debt is more than balanced by a decline in stock price, which suggests that the weighted cost of capital may even increase. The flexibility of unsecured debt may be compromised by the increased attention and restriction from the ratings agencies, which would be even more of a burden in a down cycle.

Riddiough considers the fundamentals of the CMBS market to be sound and has concerns only for the highest rated tranches. “It is not at all clear that the institutional market recognizes that a AAA-rated CMBS is not the same thing as a AAA-rated corporate bond. There are significant cash flow timing risks,” he says. Altogether though, Riddiough expects continued expansion of public market investment in real estate over the next two years. After that “there may be spin-offs and some of these REITs are going to go private. . . It should be an interesting ride,” he concluded.

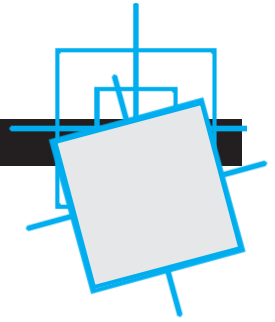
On the Other Hand

Stewart Myers, Billard Professor of Finance at MIT’s Sloan School of Management, speaking the previous evening at the members’ dinner, struck a contrarian note. Based on his current research on why firms go public, he argued that there are convincing reasons that a mature industry like real estate should remain in private hands.

A proceedings of the meeting is available as WP 69 at a cost of \$10. See order address on page 11.

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reservations about the drive
and increased attention



"This has been a fabulous case," says Tod McGrath, "A great mix of real estate and corporate finance." His face glows with the pleasure of some of the intricate details he has just described. If there were only a chalk board to make things even clearer! And the man is talking about his work. As Senior Vice President of McCall & Almy, a real estate advisor specializing in financial problem solving and execution of real estate transactions for clients, Tod tends to be involved in the more complex financial problems. His 'case' is one he has spent the last 18 months on, an analysis of the Massachusetts Housing Finance Agency's Sharp Loan portfolio. It included 77 partnerships with tax motivated investors and a billion dollar loan portfolio in various stages of financial distress, a lagged effect of the recession. All the projects—9300 units of housing—were built at the market peak so the underwriting assumptions turned out to be wrong; state aid is tailing off as scheduled but before the market is fully back to take up the slack. Unless things change dramatically over the next few years, MHFA won't have the cash flow to pay off the holders of the bonds floated to finance the construction. For Tod, the situation has all the right elements to make it interesting. The civic implications are important—the very survival of the Agency is at stake. The plot is a favorite scenario—cutting edge financial structure (at least in the 1980s when it was devised) coping with the vicissitudes of the real world and the real estate cycle. The details are dauntingly complicated. There is an interesting tax angle—in addition to looking at the asset value of the properties, each partnership had to be evaluated as an ongoing operating company. Finally, there is a good chance for a happy ending—investors have benefited from extra tax losses and the Agency will be able to bear the loss. It is a fascinating tale of modern real estate finance, and Tod is an inspired narrator who points out the insights and ironies with satisfaction.

Students at the Center for Real Estate have benefited from Tod's ability to make financial complexity interesting and understandable for more than a decade now, as he has combined the roles of practitioner and teacher. In addition to his full time position at McCall & Almy, Tod co-teaches both the fall and spring term finance courses in the Master's degree program. He likes being in the classroom. "When I was a student I had teachers who were good at making me understand why things didn't always work out in the industry the way theory said they should. It was intellectually enjoyable and really fun to tie theory back to practice," explains Tod. "I enjoy cutting through the clichés and the rules of thumb."

Tod also helps practitioners cut through clichés as a mainstay presenter of summer Professional Development courses. His workhorse course, Fundamentals of Real Estate Finance, was so popular in its eighth year last summer that an extra section ran in August and attracted more than 50 attendees through word of mouth alone. His advanced finance course on

PDC Record Breaker

capital markets was also over-subscribed. Tod attributes the increased interest in his courses to the changes the industry has experienced in the last five years. In 1992, nobody would have predicted the role the public capital markets now play in financing real estate. “If you are in the industry and don’t understand Wall Street, you feel insecure. It influences the way everyone views their role,” he says.

Currently, Tod is also taking part in Center research activities, working on a focus group on strategic information for real estate decision making which will be held at the Center in December. The goal of the focus group is to identify the methods actually used to make investment decisions and the information required for a given strategy. Investors can hold real estate in a variety of forms—directly through owning the asset, indirectly through holding shares in an operating company, and through mutual funds. The pricing decisions for each format and thus the specific information needs differ. “We want to formalize our understanding of current practice and use it to improve the collection and distribution of information,” Tod says. “My sense is that we’ll find methodologies are quite straight forward—we aren’t going to be shocked.”

Tod, who earned BA and MBA degrees from Columbia University, first came to MIT in 1986 when he enrolled in a Ph.D. program in Real Estate Finance in the Department of Urban Studies after working for several years as a consultant and real estate financial analyst on the West Coast. He served as a teaching assistant in the Center for Real Estate’s computer lab while he completed the course work for his degree. In 1989, he was lured away from the strict academic track by a job offer from Meredith & Grew involving a particularly interesting ‘case,’ the proposed redevelopment of Boston Garden-North Station area. On behalf of the developer, Delaware North, Tod did the financial analysis and was deeply involved in the permitting for the complex project, negotiating with practically every governmental entity in the city, including the Mayor’s office, the Boston Redevelopment Authority, the Massachusetts Bay Transit Authority, and the City of Boston. Through it all he maintained his teaching connection with MIT, absorbing the relevant details to keep his students grounded in the real world.

The boom in real estate extended to the Center’s summer professional development courses this year, as the largest number of attendees ever enrolled in a schedule of courses that was extended into August for the first time. Almost 500 industry professionals from 170 different companies studied real estate at MIT last summer, a 20 percent increase over the previous year. A quarter of those attendees studied basic real estate finance as high demand led to the scheduling of a second session of the course. The eight courses (nine if you count the extra session) were the most offered by the Center since 1989.

Among the courses were two offerings by faculty new to the summer program. Former Center Director, Professor Larry Bacow and his term-time co-teacher Elliot Serkin, introduced non-lawyers to Structuring the Real Estate Entity, a course which students found “very understandable and enjoyable despite the density of the material,” in the words of one of them. The second new course “Introduction to Commercial Real Estate Development” was a lightning fast survey of the entire development process. The instructor, Tony Ciochetti, Associate Director of the real estate program at the University of North Carolina, normally takes a term to cover the topics, but presented the abbreviated version effectively. One verbal and enthusiastic attendee commented that “the instructor was extremely energetic, knowledgeable, organized, approachable, thorough, and interesting.”

As a recipient of this Newsletter, you will automatically receive next year’s Professional Development Course brochure. Look for it in early April.

Case Studies: Costumes Don't Count

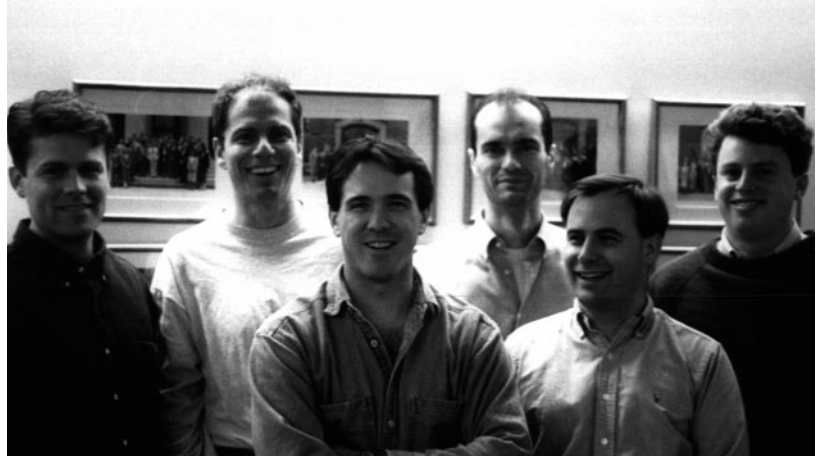
The core course in management, Managing the Real Estate Company, makes heavy use of case studies in a variety of different ways. Students analyze company case studies to learn about particular issues in strategy and management, and they may also analyze companies and write their own cases as part of the term-long small group project. Many of the cases used in the course were written by groups of students in earlier years or by an individual student as a thesis. An advantage of that is that executives who took part in the case study in the past are usually willing to come into class to comment on the student discussion of the case and to tell the rest of the story—what has happened to the issues and the firm since the study was done. Small



Julius Caesar, Bill Gates, Mother Theresa, and Albert Einstein sat on Motorola's Board of Directors in the students' version of the case study.

group projects in the spring of 1997 included several groups of students working on new case study sites.

One project, which was somewhat atypical because it was located in Europe, was a case offered by Johnson Controls International (JCI), a member of the Center. JCI is a manufacturer of mechanical systems for facilities (thermostats, boilers, etc.) which also does systems engineering work for large projects and, more recently, consulting and facilities management in corporations. Five students traveled to facil-



Shaun Ryan, Renato Ventura, Jonathan Bedard, Mauro Montagner, Serge Platonow, and Sam Mundel studied Johnson Controls, UK management issues.

ities in England managed by the recently purchased Johnson Controls, UK. There they spent long days interviewing staff about strategic facilities management issues. The students found the JCI managers willing to spend time, forthcoming about their company, and interested in talking about the challenges they face. Organizing and prioritizing the large amount of information they received was the students' major problem. "This was a tremendous learning opportunity for us, there are so many issues," noted Sam Mundel, a member of the group. "We had no big company experience before, for one thing. Second, with the addition of high value-added components, our notion of what facilities management entails changed in a major way. Finally, we came to realize that from the client's point of view, facilities management is a big-ticket expense, so we had to think about how information can be packaged to standardize some services in the mature parts of the industry."

Another use of the case study is as a culminating activity which synthesizes many of the issues covered in the course. The "Motorola case," a Harvard Business School standard, was used in this manner again this year. As course faculty and co-

author of the Motorola case, Gloria Schuck explains, "I usually stand in front of the class and lead the case so I can draw out the significant lessons; but here the students role play and do all the analysis themselves." The class was divided into four groups to represent Motorola's CEO's office and board of directors and three regional offices competing for funding and support. Each business unit had to diagnose its needs and draw up innovative strategic plans to enhance their future competitiveness. Then they had to defend those plans in front of a board which the students decided should consist of Einstein, Mother Theresa, Bill Gates, and Julius Caesar. "They embody the forward thinking principals of Motorola—innovation, caring, technology, and market share," explained Josh Anderson, a.k.a. Bill Gates. "The students did a great job. They were creative and offered insightful plans for the future," concludes Schuck, whose students have played the Motorola case in Star Wars get-ups, and pin-stripes and suspenders in other years. Costumes don't count in the evaluation though.

The Class of 1998

Each year, before the new class enrolls and even for a period of time afterwards, the students exist on paper and in imagination more than through their actual words and deeds. One can play with the facts, trying them in various perspectives, wondering which ones are meaningful. There are quite a few facts to work with. For example, the incoming students this year are relatively young: they average 29 years old, a year or so less than most classes. A third of the 30 students are women—back to normal you might say, but you would have to go back to the Class of 1988 to find as large a contingent of women. Six members of the class have advanced degrees, but only two are architects, fewer than in recent years. (Why so few?) There are also slightly fewer international students this year: four incoming members of the class are international and two others have worked abroad for significant stretches, including one US citizen who has done property management

and dispositions in Tokyo for the past eight years, and another who helped design an addition to the Milwaukee Museum of Art from his firm's office in Paris. There are an average number of entrepreneurs: two members of the incoming class have established their own real estate firms; while one started a catering business in addition to her day job minding a portfolio of mixed-use real estate. Four members of the class work at various levels in family real estate firms—companies which build low-income housing for the government, do appraisals and consulting, develop commercial and multi-family residential buildings, or provide full-service development.

Like previous classes, life is not all work. Athletic activities rank high on the list of leisure time pursuits, with soccer the most commonly cited sport. One person has played it semi-professionally and still coaches when he can. A woman was nationally-ranked in 3000 and 5000 meter track events in college.

The class also includes some readers and people who like to listen to music, as well as a writer or two, a saxophonist, and a piano player.



The student lounge and the Center's main hallway acquired a new look last winter when planned renovations were finally completed. A curved oak and glass doorway at the head of the stairs creates a definitive entry to the Center's space as well as keeping conditioned air inside. New vinyl flooring brightens the area. The reorganized student lounge has more usable space than before, though it still appears as crowded as ever.

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Seidel/Holzman (founded by Stacy Holzman '89) received its second honor award from the American Institute of Architects for this affordable housing project, Laureola Oaks, in California. See more stories about alumni on pages 4 & 5.

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