Continuing a tradition begun two years ago, the Executive Luncheon Speaker Series (funded by the Zell Center for Risk Research) provides an opportunity for a group of 20–25 students to meet with leading real estate professionals for an interactive luncheon discussion at the Allen Center. In the 2005-2006 academic year, Kellogg welcomed Paul Beitler, President—Beitler Real Estate Corporation (November 2, 2005)

One of Chicago’s best-known real estate developers J. Paul Beitler, president of Beitler Real Estate Corporation began his talk by discussing the real estate career track as a triangle. At the base are entry-level positions where one learns how real estate works—such as lending, appraisal, and management. In the middle is finance—which he believes is the backbone of real estate. At the pinnacle is owning real estate—which he believes is the aim of most everyone in the industry. He further emphasized that one’s career in real estate is greatly determined by the level of risk one wants to take. At the high-risk end are the entrepreneurs like him; at the other end are more corporate-type jobs. While he has seen great success at both ends of the spectrum, he has always remained on the high-risk end of the spectrum. Mr. Beitler believes that MBAs today are in a unique position, entering the real estate industry with more skills than their predecessors. When he began his career for example, he learned everything on the job.

Mr. Beitler then transitioned to a very candid question-and-answer exchange. He spoke of his firm’s recent announcement concerning the development of the tallest structure in the world, a broadcast tower near Navy Pier. He believes the structure would be a “great book-end to my career.” One of the reasons he loves the real estate business is that there are few barriers to entry and that ideas get funded because they are great ideas, not because of the developer’s name. He also noted that the state of the industry has allowed him to complete his last five deals, including the broadcast tower, without having to contribute financial equity (i.e., his firm’s equity contribution is one or more value-added element (re-zoned land, executed lease with anchor tenant, etc.)). Mr. Beitler also named what he believes continues to be the four biggest risks in development: interest rates, construction risks, leasing risks and exit strategy.

As to the state of the industry, he feels that there is some pricing or valuation risk, but it is largely confined to mega condo projects in “hot” areas. As to keys to personal success, he feels that owning property early in one’s career is key. He cites the wide discrepancy in capital gains and income tax rates as one of the motivations. Another motivation for (please see Luncheon Series, page 12)
Real Estate Conference: Market Trends

by Eddie Meder ’07

As has become something of a tradition, the first panel for the 2005 Real Estate Conference was “Market Trends” presented by Mr. Randall Mundt—president and chief investment officer of Principal Real Estate Advisors. His presentation was based on the newly released research report, “Expectations and Market Realities 2006: In Search of Global Balance” produced by the triumvirate of Principal Real Estate Investors, Torto-Wheaton Research, and Real Estate Research Group.

“We have come out of a period of tremendous prosperity. A case can be made that that prosperity will continue and real estate will continue to deliver, but it does face some interesting challenges.” These challenges, as described by Mr. Mundt, include: global imbalances caused by the rise of emerging markets as significant contributors to the global economy, excessive savings of U.S. dollars by foreign governments, overcapacity and lack of pricing power in many industries, the high price of crude oil, and global labor-force outsourcing.

Most of these imbalances are not new to real estate investors; however, Mr. Mundt is concerned that some imbalances have reached a level that could have negative consequences on the value of real estate. In his estimation, the magnitude of these imbalances are unprecedented and without any sort of track record to measure their effects. Since real estate assets are currently “priced-for-perfection,” there is little room for error in the event of any global disruption in any of these areas.

Outlook for the U.S. Market

Fortunately, Mr. Mundt believes that the U.S. economy is extremely strong and can absorb most of these market imbalances. GDP growth is projected to be approximately 3.5% for 2006. Consumer spending is expected to drop, but government spending will rise as reconstruction efforts continue in the aftermath of Hurricanes Katrina and Rita. Business spending is poised for growth as many cautious companies have built up significant cash reserves. Finally, job growth continues to improve as the U.S. has experienced 27 consecutive months of employment growth before Hurricane Katrina.

Real Estate Conference: Debt and Equity Panel

by Andrew Copilevitz ’07

This year’s finance panel tackled a variety of issues prevalent in the debt and equity markets. The topics discussed included the current state of the debt and equity markets, the anticipated impact of rising interest rates as well as the potential for a market correction. Professor Thomas Lys, the panel moderator, opened with a cautious outlook, suggesting that liberal lending practices, an expanding budget deficit and rising interest rates could indicate that a market correction is imminent.

Pete Marino (’99), of L.J. Melody, indicated that as rates rise he is seeing a shift from floating- to fixed-rate deals. Richard Flohr, of Prudential Mortgage Capital, added that some customers are shifting to shorter-term debt because of shrinking investment horizons. Prudential Mortgage Capital has seen a dramatic shift in their lending portfolio with approximately fifty percent of newly originated loans having terms of three to five years.

The panelists also discussed the abundance of capital flowing into the commercial real estate market. With a tremendous amount of capital also still sitting on the

(continued on next page)
sidelines, many of the return premiums are evaporating. According to Mr. Flohr, “With the market so flooded with capital, we wonder if we’re getting paid for the risk we’re taking.” For example, higher-risk property types like hotels are migrating towards core pricing. In addition, the risk differential is not being priced into secondary and tertiary markets. “That’s the concern that we have when we talk about the world,” concluded Mr. Flohr.

Given the current market environment, David Kirshenbaum (’92), chief operating officer of Joseph Freed and Associates, indicated that his firm, which typically is a portfolio developer, has taken advantage of the low cap rate environment to strategically sell assets.

Another trend noted by the panelists is the increasing number of participants in various points along the capital hierarchy. For example, the use of mezzanine lending as well as joint venture structures are a prominent features of today’s market. C. MacLain Kenan (’91), director of real estate investments at Arcapita, said that joint ventures are a popular product and described the benefits for one of their major partners, Prologis. “They can stretch their service company over a larger footprint without having to use their balance sheet capital to own the real estate. It’s a margin booster, providing profits without capital allocation.” said Mr. Kenan.

With multiple (and often conflicting) interests in the capital structure, nobody is really sure what might happen at the workout table should a deal go south. Nevertheless, all panelists agreed that it is inevitable that cap rates will rise again. The more difficult question is when.

The panelists agreed that the trend in retail and entertainment themed real estate is away from enclosed malls and towards “lifestyle centers,” open-air shopping centers that often integrate residential living. With lower operating costs, lifestyle centers allow retailers to function at a lower occupancy cost than in an enclosed mall. Mr. Schain then cited a study indicating that people do less discretionary shopping when the weather is inclement, mitigating the perceived advantage of enclosed malls in cold-weather climates. The panelists claimed that while existing dominant regional malls in strong locations will still thrive, lifestyle centers will be the model of choice for future developments.

What do you think?

We are looking for your critical feedback or analysis on this or other issues. Write a Letter to the Editor! Contact our editor at realreturn@kellogg.northwestern.edu or 847-491-7014.

Real Estate Conference: Entertainment Panel

by Danny Resnick ’07

The entertainment panel discussion, moderated by Richard Tucker of Tucker Development Corporation, was full of interesting insights from veteran practitioners. The discussion opened with Stanley Nitzberg of Mid-America Investment group discussing the advantages and disadvantages of the public/private partnerships common in large retail developments. Mr. Nitzberg stated that developers go through the “aggravation” of negotiating with municipalities because it is a way to acquire cheaper land and take advantage of subsidies such as tax increment financing. Ross Glickman of Urban Retail Properties discussed a public/private partnership his firm arranged to develop a lifestyle center in a high growth area of Missouri. Mr. Glickman elaborated on how slow the development process (entitlement/zoning/leasing/financing) can be, but indicated that the process is being sped up with the increased availability of capital. His firm targets cash-on-cash returns in excess of 9% for ground-up development deals.

Mr. Tucker emphasized that retailers often display a herd mentality when it comes to leasing and development. Barry Schain of Next Realty, who brokered the Century Theater deal in downtown Evanston, discussed various aspects of successful retail development. Sales per square foot and occupancy cost, the percentage of a retailer’s sales that are spent on rent and utilities, are the most important metrics for determining the health of a shopping center. Developers and retailers want traffic, which often comes as a result of waits at restaurants and theaters. In-line tenants capture business when restaurant and theater patrons have to wait. Mr. Glickman then added that movie theater tenants are often difficult to underwrite because their credit is weak, leaving developers an interesting dilemma because theaters captivate shoppers before and after the show. Mr. Schain added that movie theaters are often not financially feasible on their own, and that public subsidies are often needed to create incentives for developers to anchor projects with a theater.
Real Estate Conference: Keynote Speaker, Mark Rose

by Myles Tarbell ’07

This year’s Conference featured Mark Rose, CEO of Grubb and Ellis, as the keynote speaker. Mr. Rose provided an overview of the current state of the real estate market and addressed the advantage and opportunities of understanding change. Part of this process involves asking the following questions:

• Where are the capital markets going?
• What will the investment market look like in the future?
• What will the fundamentals be that underline certain asset classes?
• How are you going to best serve corporations, investors and developers in the US and globally?

The key to be successful, Mr. Rose stated, was to understand these changes, take action and build value for your customers.

So, where are we now? Consumer confidence is relatively high, interest rates are still low, inflation is low, and the volume of commercial real estate has increased threefold (from $20 billion to $60 billion) over the last three years. Although the office market has been weak in certain parts of the country, real estate fundamentals overall are strong with hotels and retail performing extremely well. Mr. Rose went on to say that “If you are in the market now and you are not making money, you should be doing something else”.

Where are we going? 2006 will be better than 2005. International capital flows should continue to increase, interest rates should only inch up, demand will be stronger as unemployment rates continue to decline and, with more people “sitting in seats”, office market fundamentals should improve. Hotels will continue to generate favorable cash flows as few new hotels have been built in recent years despite solid economic conditions and increased business travel.

However, oil and gas prices are increasing. “Almost every product used in the building process involves oil or gas—either by transporting the product or the building material itself contains oil or gas. While increases in these commodity prices may adversely effect capital market flows, they will at the same time increase replacement costs. This is one of the situations you need to look at.”

Longer-term, there are many changes on the horizon. Aging populations will change consumer spending patterns. Interest rates will move, inflation will move, and global capital flows will move. Globalization is also upon us. New REITs are being created in Europe and Asia; institutional investors are looking at things from a global perspective.

So change is coming. Don’t fear it. Be flexible and nimble in today’s environment. Listening to others is also extremely important. It is also a great time to sell and some people will be sorry they didn’t. We have not had a down cycle in 10 years. There has never been a cycle when people didn’t get hurt when the music stopped. If your strategy is to hold, that is OK, but understand that change will come. Maybe not in three-four years, but change will come.

Real Estate Conference: Hospitality Panel

by Matthew Tingler ’07

The hospitality panel discussion, moderated by Professor Joseph Pagliari, centered on hotel and resort development, one of the most talked about areas in real estate today. Panelists Marc Louargand of Cornerstone Real Estate Advisors, David Merritt of Marcus Hotels and Resorts and David Pisor of Elysian Hotels and Resorts shared their views on current marketplace trends as well as a discussion of their recent hotel and resort dealings.

Dr. Louargand opened the panel by providing attendees with a brief overview of Cornerstone Real Estate Advisors, which owns 36 resort and upscale hotel properties and has nearly $2.5 billion in hotel and resort assets under management, and a discussion of the company’s recent deals, which include the acquisition of a five-star luxury resort in Princeville, Hawaii and a Hyatt hotel in Valencia, California and the sale of a Sheraton hotel in Biscayne.
Florida. Commenting on the sale of the Sheraton hotel, Dr. Louargand humorously hinted at the presence of a real estate bubble in southern Florida by intimating that Cornerstone sought an all-cash deal for the property, which sold at twice its appraised value.

Mr. Merritt followed with a discussion of Marcus Hotels and Resorts’ recent acquisition of the historic Skirvin Hotel in Oklahoma City, Oklahoma and the significant efforts being made to restore the hotel to its former state of grandeur as the social center of Oklahoma City. He then went on to discuss the company’s latest development, a 255-unit luxury condo hotel in Las Vegas, Nevada.

Commenting on the property, Mr. Merritt noted that it represents Marcus Hotels and Resorts’ second venture into condo hotels, an area that the company may continue to pursue due to favorable economics. Given the company’s recent sale of its Baymont Inns & Suites brand to La Quinta this seems to be a likely possibility. Mr. Merritt indicated that Marcus Hotels and Resorts generally looks for levered returns of 18% to 20% on existing buildings and 20% to 25% on new developments.

Mr. Pisor continued the panel’s focus on condo hotels with a discussion of his ultra-luxury hotel, the Elysian, which will serve as the flagship property for future Elysian Hotels and Resorts. The current development is located in the heart of Chicago’s Gold Coast neighborhood and consist of 60 stories, 180 fully furnished guest suites, and 51 private condo residences (averaging 3,800 square feet per unit), elegant restaurants and boutiques, an 18,000 square foot spa and health club, indoor pool, private screening rooms, and salons. At asking prices of between $2 million and $8 million for private condo residences, luxury living in Chicago won’t come cheap; however, Mr. Pisor noted that sales have been brisk and, in fact, have exceeded his expectations with roughly 60% of the units pre-sold. “We set out to redefine the luxury hotel experience in Chicago and the response to our project confirms that there is strong demand for this ultra-luxury style of urban living,” added Mr. Pisor. It would appear so. Chicago’s wealthy will now have a new place to call home.

A common theme that emerged from the hospitality panel was the belief that ultra-upscale resort and condo/hotel properties offer some of the most attractive economics in real estate today and, perhaps, will continue to do so for the next several years. To be sure, Dr. Louargand emphasized that these property types are currently selling at trailing cap rates of 6.5x to 8.0x earnings as compared to a historical range of 10x to 12x. Dr. Louargand further noted that hotel financing has improved (as displayed by a narrowing of credit spreads) considerably in recent years due to improving industry fundamentals. Nevertheless, market risks can not be ignored given rising interest rates and the proliferation of condo units in recent years; that said, ultra-upscale properties may be better positioned to endure an economic downturn than their less luxurious counterparts.

Successful Career Fair in 2005

by John Wilbeck ’07

This year’s Conference hosted another successful Real Estate Career Fair at the Allen Center. The Fair provides an informal forum for students, alumni, and executives to discuss the industry and potential career opportunities. This year’s participants included BlackRock, Grubb & Ellis, Jones Lang LaSalle, ProLogis, and Wachovia. Company representatives have given favorable feedback the included many Kellogg alumni, who discussed their own career progressions. Jonathan Glick ’04 added, “the alumni were very candid about how to obtain a job in the industry.” Given the job fair’s popularity, another fair has been scheduled for November 1, 2006. If your company would like to participate, please contact Conference Co-Chair John Wilbeck ’07 at jwilbeck2007@kellogg.northwestern.edu.
Real Estate Club Career Treks

by Danny Resnick ’07

On February 15th, eighteen members of the Kellogg Real Estate Club ventured to downtown Chicago for the first Real Estate Trek of 2006. They began their day at real estate investment bank Macquarie Capital Partners, where John Montaquila discussed global capital flows into real estate and cited the shift in institutional portfolio allocations towards real estate investments as the driver of today’s low cap rate environment in real estate markets with weak—but improving—fundamentals.

The next stop was office developer Hines, where Kellogg alum Ashley Heggie (’05) discussed their latest development in the downtown Chicago: 300 N. LaSalle, which will be anchored by Kirkland & Ellis and have spectacular views of the Chicago River. After lunch, Ashley led the group on a tour of newly completed One South Dearborn, including law firm Sidley & Austin’s beautifully finished space and thrilling 360-degree views of the city from the roof of the 40-story building.

The afternoon continued with a visit to Chicago real estate developer Mesirow Stein, where chairman Richard Stein gave a colorful presentation of 351 N. Clark, a 45-story office tower being developed by Mesirow Stein to be co-anchored by law firm Jenner & Block and by Mesirow Stein’s parent company, Mesirow Financial. In addition, Greg Karczewski (’00 TMP) and Gavin Stein discussed residential developments at the corners of Randolph/Des Plaines and Roosevelt/State.

On March 1st, the Club had its second career trek—also held in Chicago. The group of fifteen students started the morning with a visit to Equity Office Properties Trust (EOP), which was highlighted by a dynamic presentation by Chief Investment Officer, Jeffery L. Johnson, covering EOP’s investment philosophy and target markets. EOP’s philosophy includes owning properties in high-barrier markets in which EOP can acquire sufficient market share to enjoy economies of scale (not available with a more geographically diversified portfolio).

The next stop was Prudential Mortgage Capital Company (who recently hired Bryan McDonnell, Kellogg ’06). Over lunch, Prudential’s Principal, Richard Flohr, served a healthy dose of “Real Estate Lending 101.” Mr. Flohr’s presentation was very informative and provided insight into the creative ways lenders underwrite and manage the risks in a transaction. Seeing the commercial real estate world through the eyes of a lender provided an interesting contrast to the perspectives of the equity investors visited during the February trek.

The remainder of the afternoon was spent at Blue Vista Capital Partners, a real estate investment bank and private-equity fund manager. Managing principals Peter Stelian and Robert Byron discussed the unique nature of the Blue Vista Sponsor Equity Fund, which provides equity financing to local owner/operators of institutional-quality real estate throughout the United States. Mr. Stelian provided an insightful overview of a few of the transactions in which their fund has invested, including a student-housing project in Santa Barbara, California.

And, in the spirit of the real estate industry, both days concluded with a cocktail reception attended by members of the Kellogg Real Estate Alumni Club as well as the students participating in the trek. The Real Estate Trek Co-Chairs (Andy Copilevitz, Eddie Meder, Danny Resnick, Matthew Tingler and John Wilbeck) would like to thank the companies who participated in the trek for their time and hospitality.
Tribute to Charles H. Shaw

by Teri Murray

Sadly, Charles H. Shaw, one of the founding members of the Guthrie Center for Real Research Advisory Board and a renowned real estate developer, passed away January 4, 2006 while on a ski trip in the Snowmass ski area. He was 72.

A Brooklyn, N.Y. native, Shaw worked his way through Williams College laundering shirts and washing dishes. He went on to earn millions as he reshaped the skylines of Chicago and other cities with his unique developments.

Shaw made his first mark in Chicago in 1968, adding to its skyline with the development of Lake Point Tower, at the foot of Navy Pier, which—at the time of its completion—was the tallest residential building in the country. From its beginning, though, the development stirred public controversy over whether its massiveness was appropriate for its location. Charlie Shaw took risks and made a lasting mark on Chicago.

Shaw’s achievements as chairman of the Shaw Company included a hand in such towering projects as the United Nations Plaza in New York, the $180 million renovation of Chicago Hilton and Towers in the South Loop in 1984 and the transformation of 23 acres near Evanston’s downtown into Northwestern University’s research park. Shaw was the only developer willing to take on the entire development at once. The Shaw Company completed the first multi-tenant technology building of 43,000 square feet in the fall of 1988.

Mr. Shaw also transformed the original Sears, Roebuck and Co. world headquarters into an anchor for re-development on the far West Side. One of his best-known and ongoing projects is the Homan Square redevelopment in Chicago’s North Lawndale neighborhood. Homan Square’s mixed-income housing is recognized as a national model for urban revitalization.

His firm, The Shaw Company, grew into a successful real estate development company with a reputation for handling complicated mixed-use projects. Luther Village, a retirement community in Arlington Heights, and Prairie Crossing in Grayslake, a conservation community built around, instead of on top of, existing prairie land, are suburban examples of Shaw’s community-centered projects.

Charlie also brought his determination, energy and an impeccable reputation to his involvement with the Guthrie Center and his activities with the School’s Real Estate Program. We will miss him greatly.

In Memorium: Founding Guthrie Board Member Charles Shaw

Students Assess Development Options for 4,000-Acre Cattle Ranch in Florida

by Cameron Smith JD-MBA ’07

Thirteen Kellogg students worked during the 2005 winter quarter with St. Lucie Partners, including its Chief Operating Officer Bo Kemper (EMP ’01 and member of the Kellogg Alumni Advisory Board) to analyze real estate development options for the company’s 4,000-acre cattle ranch and tree farm in Florida. Students determined the viability of creating a golf course, marina, equestrian ranchettes, single-family homes, as well as senior housing.

For each development scenario, students assessed entitlement requirements, determined market conditions and prepared financial projections.

Recommendations promoted “smart growth” through high-density residential development in order to prevent urban sprawl. The team delivered a formal presentation to St. Lucie Partners at the Allen Center in December 2005, as did a similar team from the University of Florida’s Warrington College of Business. (St. Lucie Partners wanted the perspective of a Florida-based business school, in addition to Kellogg’s perspective.)

The Kellogg team consisted of a diverse group of students: Bill Bennett MMM ’06, Scott Blanding ‘07, Todd Blanding TMP ‘06, Anand Desai ‘06, Yale Dieckmann ’06, Brian Driesse ‘06, Simon Frewer ’06, John Higgins ’06, Mike Keymer ’06, Aristithis Loukas TMP ’07, David Neuman ’06, Cameron Smith JD-MBA ’07, and Mike Warren TMP ’07. Professor Joseph Pagliari served as the faculty advisor.

“This was a complex development proposal with unique zoning and land-use challenges at all jurisdictional levels,” said student Mike Keymer. “It was a very rewarding experience for us to collaborate with these landowners as they explore the development opportunities at hand, and equally rewarding to know that our work may have a real impact on the future use of this property.”
Given the tremendous home appreciation rates experienced in many parts of the country, the debate about whether there is a bubble in the residential real estate market has intensified of late. For the five-year period ended last summer, the ten (domestic) housing markets—as well as the national average—with the greatest annual average appreciation rates are shown in Table 1:

<table>
<thead>
<tr>
<th>Top Ten:</th>
<th>Annual Appreciation</th>
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<tbody>
<tr>
<td>Riverside-San Bernardino-Ontario CA</td>
<td>20.68%</td>
</tr>
<tr>
<td>Sacramento–Arden-Arcade–Roseville CA</td>
<td>20.63%</td>
</tr>
<tr>
<td>Miami–Fort Lauderdale-Miami Beach FL</td>
<td>20.09%</td>
</tr>
<tr>
<td>Reno–Sparks NV</td>
<td>19.52%</td>
</tr>
<tr>
<td>Washington-Arlington-Alexandria DC-VA-MD-WV</td>
<td>18.37%</td>
</tr>
<tr>
<td>Sarasota-Bradenton-Venice FL</td>
<td>18.04%</td>
</tr>
<tr>
<td>Cape Coral-Fort Myers FL</td>
<td>17.80%</td>
</tr>
<tr>
<td>San Diego-Carlsbad-San Marcos CA</td>
<td>16.79%</td>
</tr>
<tr>
<td>Los Angeles-Long Beach-Santa Ana CA</td>
<td>16.56%</td>
</tr>
<tr>
<td>New York-White Plains-Wayne, NY-NJ Metropolitan Division</td>
<td>16.41%</td>
</tr>
<tr>
<td><strong>Market Overall:</strong></td>
<td></td>
</tr>
<tr>
<td>Average</td>
<td>7.79%</td>
</tr>
<tr>
<td>Volatility (Standard Deviation)</td>
<td>5.05%</td>
</tr>
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Sources: National Association of Realtors, economy.com and authors’ calculations.

Against this backdrop, there has been much angst about future home appreciation. Well-know scholars, such as Yale’s Robert Shiller [1], argue that the housing prices will decline in the future, hopefully with a soft landing. In addition, non-academic sources raise similar concerns [2, 5]. Naturally, there are voices on the other side of the argument. For example, Margaret and Gary Smith [3] argue that the proclaimed housing bubble does not exist and go so far as to suggest most houses (in the surveyed metropolitan areas) are undervalued.

This article addresses these two conflicting opinions. This article also argues that, while it is acceptable to invest (and live) in owner-occupied housing, any excess investment capital should be invested in the stock market.

**The Argument for a Housing Bubble**

Shiller constructs a real (i.e., inflation-adjusted) house price index for the U.S. from 1900 to 2005. This is done by linking several indices for the period before 1997 and thereafter using the Case-Shiller repeat-sale price index (which controls for differences in the sizes and quality of various homes by only measuring the appreciation on those homes that have sold more than once). By comparing this real house price index to similarly constructed indices for foreign housing markets (such as for Amsterdam and Norway), Shiller finds that these foreign indices have not experienced the long upward trend observed in the U.S. Consequently, Shiller concludes that it is unlikely that the upward trend in the U.S. housing market can continue. Shiller then plots the U.S. real rent for primary residences against his real housing price Index. His analysis indicates that, while the gap between real rents and real house prices has been gradually widening since the 1960s, the gap has grown dramatically wider since 2000. And so Shiller suggests an adjustment of house prices in the near future.

**The Argument against a Housing Bubble**

An altogether different scenario is described by Margaret and Gary Smith, who argue that rapidly increasing prices and rising ratios of housing price indices cannot answer the question as to whether current real estate prices are justified by anticipated future cash flows. The authors state that a house is priced correctly if it is equal to the present value of all future expected cash flows. Accordingly, the authors develop a procedure to estimate a home’s fair market price by estimating its net present value (NPV). The NPV of real property consists of the cash outflow upon purchase (i.e. down payment and closing-
related costs) and then considers the annual rent that would be paid if the house were not owned as well as the ancillary costs associated with the home ownership. In addition, the calculation also includes an annual value for intangibles, such as enjoying the privacy of an owned property. Finally, the net sale proceeds are estimated and included in the NPV calculation.

The authors find that in most of the surveyed areas the calculated NPV is positive, thereby suggesting that houses are not overvalued.

Rent v. Buy? What to Do with the Rest?

While only the passage of time will definitively answer which of these perspectives is right, we do feel safe in suggesting that owning your own home is preferable to renting your home—if the household can take advantage of the tax subsidies not available to landlords. Tax-based advantages of living in your own house include the following:

- imputed income is not taxed,
- mortgage interest and local real estate taxes are tax deductible, and
- capital gains exclusion at the time of sale.

Depending on the household’s marginal tax bracket, the benefit of living in an owner-occupied home as compared to renting ranges from 10% (for households in a 10% marginal tax bracket) to 32% (for households in a 35% marginal tax bracket). However, if one cannot take advantage of the tax subsidies provided to owner-occupied housing, the situation changes. As compared to purely holding houses for investment purposes (i.e. primarily value appreciation), investing in the stock market would seem more advantageous over the long run. For example, *The New York Times* [4] compares the average annual appreciation return of the housing market for the three largest metropolitan areas with the average annual return of the S&P 500 over the time period from 1980 to 2005. The S&P 500 has had an average return of 10.2% whereas the area with the highest price increases in real estate (Nassau-Suffolk, N.Y.) returns just 9.1% over 25-year period.

Clearly, any suggestion about where to place the household’s residual investment capital (after having invested in their own home) is fraught with a variety of factors (e.g., risk tolerance, correlation/diversification, time horizon, etc.) that can only be imprecisely estimated. What seems far more definitive is that, for households in modest marginal tax rates or higher and for households that can take advantage of the subsidies found in the U.S. tax code for home ownership, renting your home is a far less attractive financial alternative. While there are of course exceptions to this general rule (e.g., an employee who will live in a given metropolitan area for a short while), we believe that owning your own home seems like sound long-run advice.

### Table 2

<table>
<thead>
<tr>
<th></th>
<th>Average Annual Change '00–'05</th>
<th>Average Annual Change '08–'05</th>
</tr>
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<tbody>
<tr>
<td>S &amp; P 500</td>
<td>-2.7%</td>
<td>10.2%</td>
</tr>
<tr>
<td>New York</td>
<td>12.0%</td>
<td>7.7%</td>
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<tr>
<td>Los Angeles</td>
<td>15.5%</td>
<td>6.7%</td>
</tr>
<tr>
<td>Chicago</td>
<td>7.7%</td>
<td>5.5%</td>
</tr>
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It has been another fantastic year for Kellogg’s Real Estate community. The Real Estate Club continues to attract fantastic speakers and some of the industry’s most respected names for the Executive Luncheon Series. The Real Estate Conference brought professionals from across the continent, while the 3rd Annual Real Estate Trek exposed students new to real estate to the daily lives of real estate professionals. Most importantly, we are proud that a team of Kellogg students brought back the winning title for the Real Estate Challenge from their cross-town rivals. With such a strong community, it’s no surprise that a record number of students pursued careers and internships in real estate.

As you read through this newsletter, we ask that you consider how we can continue to strengthen our community.

Danny Resnick ’07
Matthew Tingler ’07
Managing Editors, the Real Return


In November, Kellogg competed in the fourth annual Real Estate Finance Challenge at the University of Texas—Austin’s McCombs School of Business. The country’s largest graduate real estate finance case competition hosted sixteen of the top U.S. real estate programs. In addition to Kellogg, the business schools that participated were: California–Berkeley (Haas), Chicago, Columbia, Cornell, Duke (Fuqua), Harvard, Michigan (Ross), NYU (Stern), North Carolina (Kenan-Flagler), Pennsylvania (Wharton) Stanford, Texas (McCombs), UCLA (Anderson), USC (Marshall) and Virginia (Darden). The Kellogg team consisted of: Brian Schneider 06 (captain), Bill Bennett 06, Aristithis Loukas TMP ’06, Bryan McDonnell ’05, Rodolfo Senra ’07 and Peng Zhao ’06.

This year’s case, written by Goldman Sachs, involved a private-equity fund interested in participating in the residential development of condominium units in one of the country’s premier resort locations. Because of the topography and the ocean-front setting, there were several challenges regarding the site’s development. The scale of the development (particularly given certain contingent site obligations), required the equity contribution to be larger than the developer felt comfortable with. Consequently, one of the aspects of evaluating the project included the developer’s tradeoff between negotiating the “term sheet” provided by the private equity fund and pursuing other sources of capital or phasing the development and funding the development from his own resources. Each team was given a first draft of the term sheet and was asked to analyze it from the point of view of the private equity fund and the developer. The teams were also asked to assess a variety of additional issues such as: the sales & marketing strategy, the construction program, and financing alternatives. Regarding the term sheet specifically, each team was asked to consider: entitlement risks, the preference and promote structure (or “waterfalls”), and the arrangements for funding contingent capital.

As has been the protocol of past competitions, each team received a copy of the case on Tuesday morning and had to prepare and submit (in Austin) their written analysis and presentation that Thursday evening. [Time was the scarcest resource, so all of the teams worked intensely during the time leading up to their trips to Texas.] Once in Austin on Thursday night, there was an “ice-breaker” dinner with the other teams, judges and select guests. The verbal portion of the Challenge began the next morning. Each team made a 20-minute presentation to a panel of judges and then defended its position during a 5-minute Q&A session. The judges consisted of professionals from companies with a track record of active real estate MBA recruiting, such as Bank of America, Crescent, Goldman Sachs, Jones Lang LaSalle, J.P. Morgan, Prudential Financial, Transwestern and Wood Partners, among others.

Unfortunately, the Kellogg team was unable to qualify for the final presentations. (The Harvard team garnered first place, followed by Berkeley and Wharton.) The competition was fierce. In fact, the actual developer involved with this specific case (who was at the time unknown to the participants) remarked to Professor Pagliari (who was in attendance as an observer only) that he was very impressed with the Kellogg team’s presentation and quite surprised that the team did not advance to the final round.

Notwithstanding the disappointing results, the students enjoyed a wonderful opportunity to apply the knowledge learned in the classroom and elsewhere, and perhaps most importantly, network with very accomplished professionals and some of the real estate industry’s future leaders.

On the Fast Track

• John T. Collura ‘04, recently joined the acquisitions group at Colony Realty Partners, a Boston-based real estate private equity firm. He was previously with Morgan Stanley.

• Brian Duggan TMP ‘05 recently joined Harlem-Irving Companies, as Director of Development. He was previously at Mesirow Stein Real Estate. Harlem-Irving is a large-scale retail development company based in Chicago, where Brian is responsible for managing the entire development cycle from origination through entitlements and leasing.

• Brian Gant ’04 joined Capri Capital Advisors LLC as an Assistant Vice President in Asset Management. He currently manages an office, industrial, and multifamily housing portfolio consisting of over 3.2 million square feet, and reflecting a combined market value of over $400 million. He was previously at Jones Lang LaSalle.

• Jonathan Glick ’04, recently joined Rothschild Realty, Inc., a real estate private equity fund that invests in public and private real estate operating companies. His responsibilities include securities and sector analysis, valuation, and transaction execution across all property types.
The fifth annual Kellogg/Chicago GSB Real Estate Challenge was won by a team of six Kellogg MBA candidates from the class of 2007: Andrew Copilevitz, Tarek Helal, Taylor Meyer, Daniel Resnick, Myles Tarbell, and Matthew Tingler. The victory marked Kellogg’s fourth title in five years. Previous years’ sites include the Supreme Life Building in Bronzeville in 2002, the Klee Building in Portage Park in 2003, the Library for the Blind in the Near West Side in 2004, and a former retail space in Edgewater in 2005.

The Challenge is an annual competition in which a team from each business school responds to a request for proposal for the redevelopment of a property controlled by the City of Chicago. “It is,” said Kellogg team member Andrew Copilevitz, “a fantastic opportunity to get hands-on development experience and respond to the challenges that developers face on a day-to-day basis.”

This year’s property is a vacant lot on the corner of 16th Street and State Street in the South Loop neighborhood and was made possible by Terri Haymaker of the City of Chicago’s Department of Planning and Development. (Interestingly, the City stipulated that the re-development proposal must be non-residential.) John Higgins ’06 managed this year’s Challenge for Kellogg conjunction with the Guthrie Center, and Prof. Joseph Pagliari lent invaluable expertise as Kellogg’s faculty advisor.

Based on the market information it collected and discussions with local experts, the Kellogg team submitted a proposal that anticipates the South Loop’s continued transformation into a more vibrant and attractive neighborhood. The panel of judges praised the Kellogg team for thoroughly researching the market and proposing a concept that compliments the surrounding neighborhood uses.

Architects Mark Schwamel and Adam Gumowski from Gensler created a design that judges called “attractive, functional, and urban.” The design calls for 17,000 square feet of single-story retail space anchored by a fast-casual restaurant such as Chipotle.

After breakfast and opening remarks by Prof. Pagliari, each team made a 30-minute presentation overviewing its respective project, followed by a 15-minute period for questions from the judges: Marshall Bennett (Founder, Bennett & Kahnweiler), Mary Ludgin (Managing Director, Heitman), David Miller (Vice President, Trammell Crow), Lawrence Silberman (Executive Vice President, Oak Brook Bank), and Robert McKenna (Assistant Commissioner, Chicago Department of Planning and Development). The Kellogg team would like to extend its sincere thanks to the judges for donating their personal time as well as their insights and to the Guthrie Center for its financial support.

Chicago GSB also presented a proposal designed to compliment the increasing residential density of the South Loop neighborhood. However, Chicago’s proposal included an office component in addition to retail space. The judges praised both projects, but ultimately found Kellogg’s structure to be more financially viable. “I was very impressed with the passion and determination that all six of us demonstrated throughout the quarter,” said team member Danny Resnick.

The Real Estate Program congratulates Zain Koita (ʼ08) for winning the Urban Land Institute Chicago (ULI) District Councils Nicholas V. Trkla Scholarship. His sponsoring professor, Joseph Pagliari, will also be honored at a luncheon hosting Zain and other winners.

Zain attended Washington University in St. Louis where he graduated in 2001 from the undergraduate business school. After graduation, he worked two years at the Chicago offices of Merrill Lynch and Banc of America Securities in their investment banking divisions. He then joined LR Development Company LLC, a Chicago-based residential developer of luxury high-rise condominium buildings and also affordable housing. He is a member of ULI, helping form its Young Leaders Group Discussion Series program, a mentorship program that brings together ULI’s diverse membership.

The Nicholas (Nick) V. Trkla Scholarship Fund was started in 1997 by ULI Chicago in memory of Nick Trkla, a ULI Trustee and the first Chairman of the ULI Chicago District Council. The Scholarship has been awarded to graduate level students in Urban Planning and related fields from Chicago-area universities.
luncheon series
(continued from page 1)

Owning is that "you build relationships and a track record"—important elements in accessing future deals. Mr. Beitler strongly advocated to the students a tenacious approach to getting into the development world. With persistence, a Kellogg MBA and a strong desire to work in real estate, he believes the students can land the positions they want. Lastly, Mr. Beitler concluded his talk by showing the students various recent projects he developed solely by analyzing under-utilized local properties and being aware of emerging trends. He encouraged the students to find creative real estate opportunities by standing on your desk and looking at life in a different way.

Debra Cafaro, Chairman, President and Chief Executive Officer—Ventas, Inc. (November 21, 2005)
Debra Cafaro, Chairman and CEO of the healthcare REIT Ventas, met with Kellogg students. Ms. Cafaro provided students with an overview of Ventas' investing strategy across hospitals, medical office buildings, skilled-nursing facilities, and assisted- and independent-living centers. Ms. Cafaro also shared the history of Ventas' development and growth, including a crisis weathered by the firm in 1999 when the REIT's largest tenant filed for bankruptcy protection (due to adverse regulatory changes in the Medicare and Medicaid programs). In response to this filing, Ms. Cafaro negotiated new lease agreements designed to help the tenant regain its financial stability while simultaneously negotiating with Ventas' lenders to provide sufficient liquidity during the tenant crisis. Ms. Cafaro engaged the students in a thoughtful discussion of the strategic implications and also shared her advice for leaders experiencing times of crisis.

Ms. Cafaro sees bright prospects for healthcare real estate. While nearly all sectors of real estate have seen significant cap rate compression in recent years, cap rates have remained higher for healthcare-related real estate relative to other property types. Ms. Cafaro noted these higher cap rates portend a favorable investment climate, buttressed by supply constraints imposed via state and local governments and investor demand for opportunities poised to benefit from an aging generation of baby-boomers. Ms. Cafaro explained her near-term goals for the REIT, including improving operator diversification, lowering Ventas' overall cost of capital, and reducing the proportion of assets in Ventas' portfolio that derive significant revenue from Medicare and Medicaid.

Jack Higgins, Chairman and Chief Executive Officer—Higgins Development Partners (February 1, 2006)
Jack Higgins, Chairman and CEO of Higgins Development Partners, shared his thoughts on the current state of the market, the differences between suburban and CBD developments, and his recently completed downtown Chicago office project: Hyatt Center. He discussed the role that pre-leasing plays in a successful development, saying "every market is different, [but] we would have felt differently had we not had a significant amount of pre-leasing." Mr. Higgins also discussed the recent increase in construction costs.

In addition to meeting Mr. Higgins, students at the luncheon were able to meet Marshall Bennett, a veteran of the Chicago real estate market, who shared his thoughts on the current state of the CBD office development. He astutely reminded students that, while office vacancies may be reaching the 18% mark, there is still tremendous demand for large, contiguous blocks of Class A space and predicted that developers who can provide this particularly scarce product will continue to be successful.

Leland Pillsbury, Chairman and Chief Executive Officer—Thayer Lodging Group Inc (March 1, 2006)
Leland Pillsbury, Chairman and CEO of Thayer Lodging Group. (Kellogg EMP ’82) provided students with a historical perspective of the hotel industry, from the initial purchases of hotel properties by Conrad Hilton, to the modern-day brand, franchise and management company model with separate real estate ownership. Mr. Pillsbury also discussed the segmentation of the hotel market into various brands. Finally, Mr. Pillsbury noted the challenges of owning and managing hotel real estate successfully, with its continuous daily turnover of tenants versus most other types of real estate.

Mr. Pillsbury also discussed the changing consumer tastes for hotels. The last shift in hotel design happened during the 1980s, when the Baby Boomers started to travel. Consistency and quality were in high demand. Now Generation X is influencing hotel design, as evidenced by design of Starwood’s “W” brand, with designs more tailored towards the lifestyle of their affluent clients. Finally, Mr. Pillsbury talked about today’s hotel investment market. Hotels are currently selling as low as a 6% capitalization rate. Thayer’s strategy is to be less concerned about cap rate compression (or expansion) and instead to focus on properties in which it reasonably expects to double or triple net operating income (through instituting a variety of operating efficiencies). Such a strategy has returned better than a 30% annual IRR for his investors over the past 15 years.

Geoffrey Dohrmann, President and Chief Executive Officer—Institutional Real Estate, Inc. (April 19, 2006)
Geoffrey Dohrmann, President and CEO of Institutional Real Estate Inc. began his interactive talk by providing students with a brief overview of his background and by then asking students about which topics they would most like to discuss. Aware of his background as a successful entrepreneur and consultant to pension fund advisors, many students were interested in discussing techniques for raising capital. Mr. Dohrmann generously shared his experiences, offering ideas on approaching both institutional investors and “country club” partners. Major takeaways included tips on how to isolate a large investor’s decision-maker, tailoring your pitch
to your audience, and not expecting immediate results. Mr. Dohrmann also generously invited students to attend his capital-raising seminar later this year.

He also offered his thoughts on business cycle risk, “How do you know when you’re at the top? When people start saying things like ‘this time it’s different, we’ve got a new paradigm’” Mr. Dohrmann counseled students not to underestimate the industry’s inherent risks and concluded his presentation by saying that the best two pieces of advice he could offer were to understand the downside and to always act with integrity.

John Schreiber, President–Centaur Capital Partners, Inc. (May 3, 2006)

John Schreiber, President of Centaur Capital Partners, Inc. began the discussion by discussing how he originally became interested in real estate while attending graduate school. Following graduation and military service, Mr. Schreiber joined Chicago-based JMB Realty, then focused on real estate syndications. This experience served as a platform for his future professional endeavors. Most recently, Mr. Schreiber’s career has been focused on real estate investing, both from an asset management perspective and from a principal investing perspective. During the early 1990s, Mr. Schreiber joined Blackstone Real Estate Advisors, a real estate private equity firm, where he remains a partner today.

Mr. Schreiber also discussed the changing landscape of the real estate industry. The rise of CMBS issuance and real estate private equity firms has done a lot to increase the industry’s efficiency and professionalism in Mr. Schreiber’s view. Mr. Schreiber also noted the increased risk being taken on by private equity firms as a result of their generous use of leverage and their lofty return goals.

Addressing real estate as a career, Mr. Schreiber highlighted the personal nature of the business. He also applauded Kellogg students noting that during his days of recruiting he found Kellogg students to be the most well-rounded students among the top business schools, a trait that will be vital to networking success. Mr. Schreiber also highlighted the need for a long-term focus in real estate. He recommended that students think carefully about the type of work they want to be doing and the type of firm they wish to work for. In parting, Mr. Schreiber noted that the individuals that he believes have been the most successful in real estate have been those that have a genuine passion for the business, partly to weather the industry’s many ups and downs and partly to go above-and-beyond the competition.

The State of the Real Estate Program

by Thomas Lys and Joseph Pagliari

The Real Estate Program continues to build on its successes of the last several years. Here are some of the highlights:

Class Enrollments and Real Estate Majors

In the academic year 2005-2006, a total of 286 Kellogg students took our classes—an increase of 17 students from the previous year (which, in itself, was a record). This growth is even more impressive when one considers that only 74 students took real estate classes in the academic year 1999-2000.

Course Offerings

As has been the case of late, the Real Estate Program has six direct course offerings: Development, Finance, Fundamentals, Investments I, Investments II and Law. The current slate of course offerings is on par (both qualitatively and quantitatively) with our peer business schools. The Center has made significant strides in developing curricula that explores important areas of the practice of real estate and exposes students to the frontiers of research.

Continued Emphasis on Students Projects

The Program is devoted to by providing students with hands-on experience continues to sponsor independent study projects. This past academic year, two noteworthy projects included: 1) a review of mixed-use development possibilities for an existing 4,000-acre farm and ranch in central Florida (page 7), and 2) an overview of the development, financing and ownership changes of the Sears Tower (page 16). The students consistently identify these independent study projects as amongst their most valuable Kellogg experiences.

For the fifth consecutive year, the Guthrie Real Estate Research Center hosted the Kellogg Real Estate/University of Chicago Real Estate Challenge. We’re also happy to report that the Kellogg team has won this year’s Challenge—bringing Kellogg’s total number of wins to four—a more complete description can be found on page 11.

Conference & Speaker Series

Additionally, the Center co-sponsored (along with the full-time student’s Real Estate Club) the annual fall Kellogg Real Estate Conference and Job Fair (see description on pages 2-5). These conferences and events provide unequalled networking opportunities and an extraordinary forum for students, faculty and prominent real estate executives to discuss relevant industry concerns.

The Executive Luncheon Speaker Series provides an opportunity for Kellogg real estate students to interact (see State of Program on page 14).
informally with thought leaders in the real estate field. This year’s line up included: Paul Beitzer, Marshall Bennett, Debra Cafaro, Geoffrey Dohrmann, John Higgins, Leland Pillsbury and John Schreiber. (See accompanying article on page 1). To foster interaction, we limit the number of student participants to 25. This initiative, started two academic years ago, has proven to be very successful. We continue to attract an impressive array of executives (e.g., John Bucksbaum is scheduled for next fall).

Faculty Research/Outside Conferences & Papers
In keeping with our academic mission and in attempt to expand the Kellogg real estate “brand”, the Program continues to participate in a number of external real estate conferences. Examples include: Professor Pagliari presented “Understanding Core and Non-Core Real Estate Returns,” given at the Alternative Investment Conference (in January) and then at the National Council of Real Estate Investment Fiduciaries (NCREIF) conference (in February). Professor Pagliari also presented “Some Initial Thoughts Concerning the Strategic Use of Leverage,” at the American Real Estate Society (in April), where he chaired the panel on Leverage in an Institutional Portfolios. Finally, Professor Pagliari acted as the discussant on “The Market for Corporate Control: Evidence from REITs,” presented at the Real Estate Research Institute (also in April).

Professor Lys Stepping Down
With much sadness, we announce that Professor Thomas Lys is stepping down as Director of the Real Estate Program. Tom has decided to return to the Accounting Department on a full-time basis. Under Tom’s leadership, the Real Estate Program has made fantastic strides. He instituted the Kellogg/University of Chicago Real Estate Challenge and the Executive Luncheon Speaker Series, he expanded the real estate course offerings, the Real Return was founded, the number of students taking real estate courses doubled, etc.—all the while he demanded academic excellence. It’s been a remarkable run—his vision and perspective will be sorely missed. While the School searches for Tom’s replacement, Professor Therese McGuire will be the acting Director of the Real Estate Program. Professor McGuire, who is the chair of the Management and Strategy Department, is an expert on local public finance. Her research focuses on the effect of property taxes on local economic development. She is currently serving on a panel of experts who are providing advice to the City of New York as the City undertakes an assessment of the effectiveness of tax incentives for attracting and retaining businesses.

A Word about the Out-going Real Estate Club Co-Chairs
This report would not be complete without a special thanks to the outgoing Real Estate Club co-chairs—both full-time: William Bennett, Alejandro Bremer, Gina Fechheimer, Gregory Krafick, David Neuman and Brian Schneider and part-time: David Aronson, Todd Blanding, Joseph Magliochetti, Philip Sheridan and Jerrod Wigal.

Concluding Thoughts
We remain dedicated to meeting the needs of students through our course offerings, independent study projects and their involvement in our Program events. We wish all those real estate majors and the entire class of 2006 best of luck as they start their new careers.

Top Student Awards

by Teri Murray

Despite the apparent Virginia "conspiracy," we congratulate Neil White and David Neuman for their well-deserved recognition:

Top Real Estate Student Award
Each year, the School recognizes academic excellence by conferring a top student award in each of the departments and programs. The recipient of the 2006 Real Estate Top Student is: Neil White.

Neil attained academic excellence in all manner of Kellogg classes—not only the real estate classes. Upon graduating from the University of North Carolina and prior to arriving at Kellogg, Neal worked in investment banking for Robinson-Humphrey. Last summer, Neal worked as an intern for Wachovia Securities in the area of real estate corporate finance. After Kellogg, Neal (and his wife) will be relocating to Richmond, Virginia where he will be returning to Wachovia’s real estate investment banking group.

Top Real Estate Service Award
The Commitment to Service Award was created just last year and Ashley Heggie was the first recipient. The Award honors the student selected by his/her peers in the Real Estate Club who recognize the recipient’s commitment to both the Kellogg Real Estate Club and the Real Estate Program. This year’s Commitment to Service Award goes to David Neuman. In his inimitable style, David’s parting words were: “Somehow I pulled the wool over enough people’s eyes; they actually thought I was doing peer development during those rounds of golf…” David (and his wife) will be returning to the Virginia area, where he is joining the Washington D.C. office of Trammell Crow.
Kellogg Real Estate Alumni Offer Career Insight to Current Students

by Stephen Simsic ’02

Hosted by the TMP Real Estate Club, this year’s Real Estate Career Institute began with a key-note address from David Glickman (NU ’74), Ambassador Capital Management. Mr. Glickman’s presentation was followed by panel discussion which included David Goldman (’01), vice-president of Richard Builders, Inc./Belgravia Construction Co., Mark Hamilton (’93), partner at Hamilton Partners, Patrick Keenan (’01), principal at V3 Realty Company, LLC, and Kent Smith (’03), director of portfolio analysis at Equity Office Properties Trust.

David Glickman shared a light-hearted, but discerning, look into the personality traits and motivations that breed successful real estate participants. After first comparing the day-to-day responsibilities of various roles throughout the industry, he looked at the differences between practitioners who seek ordinary income versus capital gains—with those seeking the latter also displaying lower risk aversion (indeed, some might say risk-seeking behavior).

The panelists described the key points in their careers and discussed the choices they had made in getting there. Mr. Goldman’s career has involved a substantial amount of construction and project management for large-scale residential developments. Mr. Hamilton’s career has involved large-scale office leasing and development. Mr. Keenan’s career has involved industrial land acquisition. And, Mr. Smith’s career has included portfolio analysis and oversight for the country’s largest office landlord. Each of whom candidly shared their experiences and perspectives.

This question-and-answer session touched upon, among other things, the advantages/disadvantages of working for a public versus private company, identified key success factors common to real estate entrepreneurs, and highlighted the skills that augment the MBA in building a successful career.

### Industry Practitioners in the Classroom, 2005–2006 Academic Year

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<tr>
<th>Name</th>
<th>Role</th>
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<tr>
<td>Richard E. Aderman</td>
<td>Partner, Shesky &amp; Froelich Ltd.</td>
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<td>Kathryn Kovitz Arnold ’90 JD</td>
<td>President and CEO, ORIX Real Estate Equities</td>
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<td>Glenn Azuma</td>
<td>Principal, TKA Pettigrew Allen &amp; Payne</td>
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<tr>
<td>Robert Berliner</td>
<td>Attorney and Principal, Berliner Development Partners</td>
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<tr>
<td>David Brown ’84 BA</td>
<td>President, ORIX Real Estate Equities</td>
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<td>Robert Byron, Esq.</td>
<td>Managing Principal, Blue Vista Partners</td>
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<tr>
<td>John Clifford</td>
<td>Senior Managing Director, L.J. Melody &amp; Company</td>
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<tr>
<td>Thomas Coming</td>
<td>Senior Vice President, McHugh Construction</td>
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<td>Timothy Desmond</td>
<td>President, Central Station Development Corp.</td>
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<tr>
<td>Matthew Dominski</td>
<td>Formerly, Urban Development</td>
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<tr>
<td>David Drew ’73 BS, ’74 MS, ’77 JD</td>
<td>President, Drew Holdings</td>
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<td>Blake Eagle</td>
<td>Chief Executive Officer, National Council of Real Estate Investment Fiduciaries</td>
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<td>Jerry Ehlinger</td>
<td>Vice President, RREEF/DB Real Estate</td>
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<td>Sue Ann Fishbein</td>
<td>Partner, Shesky &amp; Froelich Ltd.</td>
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<td>Paul Fisher</td>
<td>President, CenterPoint Properties Trust</td>
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<td>David Glickman ’74 BS</td>
<td>Chief Investment Officer, Ambassador Capital Management</td>
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<td>Karen Goodman ’90 JD</td>
<td>Partner, Shesky &amp; Froelich Ltd.</td>
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<td>Joseph S. Hagan</td>
<td>President, Chief Executive Officer, National Equity Fund, Inc.</td>
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<td>Allan Hamilton</td>
<td>Senior Partner, Hamilton Partners</td>
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<td>W. Rob Hannah, III</td>
<td>Principal &amp; Chief Executive Officer, TSG Real Estate, LLC</td>
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<td>Brian Hansen ’99</td>
<td>Director, A.G. Edwards</td>
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<td>Robert J. Harris</td>
<td>Partner, Stein, Ray &amp; Harris</td>
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<td>Carolyn Hesse, Esq.</td>
<td>Partner, Barnes &amp; Thornburg</td>
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<td>Gary F. Kobus ’02</td>
<td>President, Lincoln Advisory Group, Ltd.</td>
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<td>John Lutzius ’89</td>
<td>President, Green Street Advisors</td>
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<td>Peter J. Marino ’99</td>
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<td>Bridgid Mattingly ’02</td>
<td>Managing Director, Wells Fargo</td>
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<td>James McPhail ’00</td>
<td>Mid-America Real Estate Corp.</td>
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<td>Matthew Phillips ’97</td>
<td>President, Integrated Development Group LLC</td>
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<td>Leland Pillsbury ’82</td>
<td>Chairman and CEO, Thayer Lodging Group</td>
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<td>Timothy Pire</td>
<td>Managing Director, Heitman Real Estate Investment Mgmt.</td>
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<td>Donald I. Resnick, Esq.</td>
<td>Partner and Chair Real Estate Group</td>
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<td>Scott Sarver</td>
<td>President, DeStefano &amp; Partners</td>
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<td>Kevin Seay</td>
<td>Area Acquisition Manager, Illinois Division</td>
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<tr>
<td>Lawrence D. Silberman ’82</td>
<td>Executive Vice President, First Oak Brook Bancshares, Inc.</td>
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<td>Robert Six</td>
<td>Senior Vice President, Zeller Realty Group</td>
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<td>Steven C. Steinmeyer ’99</td>
<td>Executive Vice President, Jones Lang LaSalle</td>
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<td>C. Allan Swaringen</td>
<td>Managing Director, LaSalle Investment Management</td>
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<td>Dale VanderLaan</td>
<td>President, Realogic Analytics, Inc.</td>
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Summer Internship in Real Estate

by Gregory Krafcik ’02

As graduation approached, four 2nd-year students reflect upon the lessons learned from their (2005) summer internships. Yale Dieckman (ProLogis), Greg Trimmer (Lincoln Properties), Neal White (Wachovia Securities), and Bill Bennett (Sterling Real Estate Partners) held summer positions ranging from development to fund management to private equity.

What was your role?

Yale: I worked in the Fund Management group at ProLogis analyzing the various funds’ outstanding debt, the key terms and covenants, etc. In the end, I made recommendations on key points the company should negotiate/consider in managing its debt portfolio in the future.

Bill: I helped create a senior housing investment strategy, underwrote transactions, and created financial models.

What attracted you to your particular summer employer?

Greg: Lincoln Properties is a well-known, national firm and I had the opportunity to work directly with a senior partner. It also exposed me to acquisitions and residential development—two aspects of real estate that I had not previously worked on.

Neal: I was attracted to Wachovia Securities because they had been lead advisor on a majority of the REIT privatizations and are active in the M&A market.

What skills did you develop or hone during your summer experience?

Yale: A very thorough understanding of real estate debt, the various covenants to consider when securing debt with properties, and a general understanding of the creative uses of leverage to finance explosive growth and returns.

Bill: My financial modeling skills increased dramatically, as did my ability to think through the myriad of investment theses that can lead to desired returns.

What was the most interesting project or transaction you worked on and what made it interesting?

Neal: The most interesting projects included working on two REIT privatization deals. One was very early in the process and I was responsible for the financial analysis. On the other, I worked closely with the CFO to manage the due diligence process.

Bill: A $100 million joint venture to develop a continuing-care retirement center in Austin, affiliated with the University of Texas. It was interesting because of the sheer size, the many moving parts, and the capital structure involved in creating a non-profit community that would yield attractive returns to the developer.

Where are you going for your fulltime position?

Greg: I will be an Associate at Clark Realty Capital. My summer experience prepared me for Clark Realty by broadening my real estate background, both in terms of asset types and the development process.

Yale: I will be an Associate at Northwestern Investment Management Company (NIMCO). My summer experience helped me gain general industry knowledge and an understanding of real estate finance, particularly on the debt/lending side, both of which will be well leveraged at NIMCO.

What advice do you have for 1st years that are pursuing real estate internships?

Yale: Go with a company that offers a structured project/deliverable for you to work on. It may sound sexy to intern for, say, a small up-and-coming development company, but you may just end up shadowing different people for ten weeks and not really accomplish anything tangible.

Greg: Stick with it through the spring. Everyone gets jobs in real estate that wants a job in real estate. They just happen to be among the last opportunities that come up versus more traditional MBA positions.

Neal: I recommend that 1st-year students do as much as they can to learn about the culture of the firm (and maybe more importantly the group) before beginning the internship.

Bill: Don’t be afraid to shamelessly use the Kellogg name to open doors for you.

May we write an article about you?

We would like to interview you about your career progression, or an interesting transaction or project. If you’re interested, please contact our editor at realreturn@kellogg.northwestern.edu or 847-491-7014

16 WINTER 2006
Job Recruiting 2006

by Leigh Nagy, Associate Director, Career Management Center

Kellogg experienced another very strong year of real estate recruiting in 2006. The Career Management Center (CMC) reports that 25 students in the Class of 2006 have accepted full-time positions, with the list of employers including: Clark Realty Capital, Hearthstone, Macquarie Capital Partners, Prudential Financial, Trammell Crow and Wachovia, among many others. Additionally, 16 students in the Class of 2007 have accepted real estate summer internships. The list companies sponsoring internships include: Cherokee Investment Partners, Equity Residential, GEM Investors, Hines, Mesirow Real Estate, Morgan Stanley and ProLogis, among others.

Notably, students in 2006 saw an increase in the number of companies coming to campus to recruit. The list of companies who visited Kellogg in 2006 includes: Bank America, BlackRock Realty, Hearthstone, Clark Realty Capital, Cherokee Investment Partners, Hammes, Hines, Jones Lang LaSalle, Prudential Mortgage Capital, ProLogis, Pulte Homes, Starwood Hotels and Resorts Worldwide, Inc., and Wachovia. In addition, several companies successfully leveraged the Kellogg Career Network (KCN), Kellogg’s online job-posting board, to identify and recruit talent for both summer internships and full-time opportunities.

Kincaid, Clewlow Offer Real Estate Insights

by Joe Magliochetti (TMP ’06)

The TMP Real Estate Club continued to draw upon the leading thinkers in the real estate industry for its guest speaker series. In January, Richard Kincaid, president and chief executive officer of Equity Office Properties (EOP) Trust, visited Wieboldt Hall to share his perspective on the office market. Mr. Kincaid’s visit was followed in February by a presentation on the industrial sector from James Clewlow (EMP ’04), chief investment officer of CenterPoint Properties Trust.

Mr. Kincaid discussed Equity Office’s decision to acquire larger shares of the office market in each of its core markets and to focus on buildings which adds to the firm’s scale and efficiencies. EOP has focused much of this effort in larger downtown areas such as Chicago and San Francisco that offer a combination of solid economic fundamentals, high-quality office product, and civil infrastructure to support a defined central business district. Mr. Kincaid also described his own career path at Equity Office, which has been highlighted by a rapid rise through the finance ranks to become chief executive officer in 2005.

At the time of Mr. Clewlow’s presentation, CenterPoint was involved in a transaction with CalPERS and Jones Lang LaSalle that would privatize the industrial REIT; so, many of his comments were somewhat reserved. Nevertheless, Mr. Clewlow described some of the motivating factors behind the privatization decision and also shared his insights into the deal’s valuation, which priced CenterPoint at a considerable premium over its share price. Due to the firm’s strong position as an industrial real estate owner and developer in the Chicago market. He described the firm’s strategies to add value to industrial assets through developing and redeveloping vacant industrial land, under-managed or older properties, brownfields and inter-modal sites.

As prominent local real estate executives and leaders in their respective fields, Messrs. Kincaid and Clewlow offered the chance for Kellogg students and alumni to learn more about the office and industrial sectors, as well as to hear how two individuals have leveraged their MBA degrees in successful real estate careers.

Need to fill a position? Looking for a job?

The Kellogg Career Network is the perfect tool for marketing an open position in your organization to Kellogg students and alumni. Kellogg’s online posting service is a quick and easy way for employers to tap into a great pool of real estate talent. To post a position, simply go to www.kellogg.northwestern.edu and select “post a job.” Positions are posted within 72 hours of receipt.

If you are an alumni job-seeker, don’t forget to regularly check for new positions on the Kellogg Career Network. To access your account go to www.alumni.kellogg.northwestern.edu/careers/postings.htm and select “search job postings.” Kellogg’s reputation as a leader in MBA real estate education, as well as a surging student interest in real estate, has fueled increased job activity. Currently, 30 students in the class of 2007 have declared a real estate major. You can help to support Kellogg by considering students and alumni for positions with your organization as they become available. In addition to on-campus recruiting, promoting job opportunities via the KCN gives your organization access to exceptional MBA talent regardless of travel constraints. To learn more about recruiting at Kellogg please contact Leigh Nagy in the CMC at (847) 491-5976.
With initial assistance from real estate investment bankers at Eastdil (in particular Steve Livaditis and Chang Lee ’03), Professor Pagliari and six Kellogg real estate students have begun writing a business case involving the development, financing and ownership changes of the Sears Tower. The six students selected to help conduct the initial research and write the first draft of the case were: Ben Bove ’06, Aristithis Loukas ’06, Richard McPhilips ’06, Gregory Trimmer ’06, Susan Weaver ’06, and Frank White ’06.

While still a work in progress, the Tower is a fascinating business case on several levels:

- Sears’ growth from a mail-order/catalogue company to one of the world’s largest retailers.
- The company’s decision to leave its west-side location to move to Chicago’s “Loop” and build the world tallest structure (using a prescient building design).
- Against a background of struggling retail operations, Sears decides to restructure/recapitalize its core business but fails to sell the building to Olympia & York.
- Instead of a property sale, Sears decides to refinance the project with MetLife (providing a $600 million first mortgage and AEW providing a $225 million second mortgage).
- Sears decides to move from Chicago to Hoffman Estates.
- The value of the building falls beneath the mortgage loan balances. Sears enters into an agreement with its lenders to turnover ownership in 2003.
- AEW decides to sell its mortgage position to Trizec-Hahn for $71 million.
- The terrorists’ attacks of September 11th reverse the general upward swing in property operations and valuations.
- MetLife acquires Trizec-Hahn’s interest for $9 million.
- MetLife places the Tower on the market, with Eastdil’s assistance, and receives a sales price of $860 million.
- Interestingly, the purchaser is a private buyer (head-manned by Joseph Chetrit) and the purchase is capitalized with a $600 million first mortgage and a $225 million second mortgage—both of which were provided by Bank of America.
- Ironically, the debt capitalization looks today much like it did more than twenty years ago (when MetLife and AEW provided Sears with its financing).
- What does the future hold for the Tower?

From a pedagogical perspective, it is important that the facts and circumstances surrounding these events be understood so that future students can analyze and understand the motivations of the key decision-makers as these judgments and evaluations were made. As case questions are formulated and answers proffered, we look to understand the complex set of interrelationships such a large and recognizable transaction creates.

As noted above, these conclusions are still very preliminary. The next stage of case study analysis will be to circulate a first draft of the case among various knowledgeable real estate practitioners who are familiar with the Tower. Based upon their critiques and perspectives, a second draft of the case will be prepared—with the assistance of another group of students.

Kellogg and the Guthrie Center for Real Estate Research eventually hope to publish this case as a teaching aid for students interested in real estate finance. Moreover, we expect that interesting chapters can be added in the future as new circumstances unfold.

**On the Fast Track**

- **Daisy Hatch ’03** was recently promoted to Vice President in the development group at Lowe Enterprises Real Estate Group in Los Angeles. Her responsibilities now cover developments ranging from office to mixed-use retail/multifamily across California, particularly in Los Angeles and the Bay Area.

- **Dominic Lanni ’02** recently joined Joseph Freed & Associates LLC, a national mixed-use development company, where his responsibilities include origination and execution of mixed-use development projects throughout the Midwest region. He was previously at Jones Lang LaSalle.

- **Laurent Luccioni ’04** has recently joined Cherokee International Services Ltd. as Director of their investment activities in Western Europe. He had previously been working at Cherokee Investment Partners in Raleigh, NC.

- **Richard Monopoli ’02** recently joined the Development Group at Boston Properties in Boston. He was previously at LaSalle Investment Management in Chicago.

- **Gregory Kennealey ’03** recently joined the asset management team at Strategic Hotels & Resorts, as Director, Asset Management. He was previously at LaSalle Investment Management in Chicago.

*Have you changed jobs?* Share your success with fellow alumni and students. Contact our editor at realreturn@kellogg.northwestern.edu or 847-491-7014.
Club Leadership

The Kellogg Real Estate Program’s student and alumni leaders are listed below. Feel free to contact them at their permanent Kellogg email address. Use their login ID below, along with the Kellogg domain name (e.g., jandersen2005@kellogg.northwestern.edu).

Kellogg Real Estate Club: 2006–2007

Name Email Role

John Carsello ’07 jcarsello2007@ Co-Chair: Career & Employer Relations (External Relations)
Danny Resnick ’07 dresnick2007@ Co-Chair: Marketing/Strategy & Real Return Liaison
Rodolfo Sena ’07 rsena2007@ Co-Chair: Finance & Sponsorship
Myles Tarbell ’07 mtarbell2007@ Co-Chair: Speakers & Events
Sarah Teunis ’07 steunis2007@ Co-Chair: Academic & 1st Year Outreach (Internal Development)
John Wilbeck ’07 jwilbeck2007@ Co-Chair: Alumni Relations

Kellogg TMP Real Estate Club: 2006–2007

David Aronson daronson@ Co-Chair
Todd Blanding t-blanding@ Co-Chair

Kellogg Real Estate Alumni Club

David Burden ’00 dburden2000@ President
Patrick Keenan ’01 pkeenan2001@ Vice President
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Stephen Simsic ’02 ssimsic2002@ Co-Chair: Finance & Sponsorship
Kent Smith ’03 kmsmith2003@ Treasurer
Mark Hamilton ’93 mhamilton1993@ Board Member
Jim Walsh ’98 jwalsh1998@ Board Member
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Rich Monopol ’02 rmonopol2002@ Board Member
Doug Struckman ’02 douglas.b.struckman@us.pwc.com Board Member


Bill Bennett ’06 wbennett2006@ Co-Chair: Finance
Alejandro Bremer ’06 abremer2006@ Co-Chair: Alumni & the Real Return
Gina Fechheimer ’06 gfechheimer2006@ Co-Chair: Marketing & Strategy
Greg Krafcik ’06 gkrafcik2006@ Co-Chair: Careers
David Neuman ’06 dneuman2006@ Co-Chair: Academics
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Real Community
Big Ten Real Estate Forum
by Stephen Simsic ’02

The Kellogg Real Estate Alumni Club (KREAC) participated in this year’s Big Ten Real Estate Forum by helping to organize a panel discussion entitled “A View from The Top.” Stephen Simsic ’02 represented Kellogg on the committee that organized the annual networking event which brought together seasoned veterans from three of downtown Chicago’s major real estate sectors to discuss the trends in their sectors. David “Buzz” Ruttenberg of Belgravia spoke about the residential sector, Todd Caruso of CBRE spoke about the retail sector, and Drew Nieman of The John Buck Company spoke about the office sector. Bruce Cohen of Wrightwood Capital moderated the lively discussion, which was supplemented with engaging audience participation. The panelists deftly “crossed-over” amongst the three property sectors by addressing challenging questions and comments directly to each other. A spirited cocktail hour followed.

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Kellogg Alumni
You can update your contact information by visiting http://alumni.kellogg.northwestern.edu and selecting “Profile Update.”

Northwestern Alumni and Other Friends
If you would like to verify or revise the information we have on file, please contact our editor at realreturn@kellogg.northwestern.edu or 847-491-7014.

KREAC Golf Outing
by Brian Duggan ’05 TMP

The Kellogg Real Estate Alumni Club (KREAC) recently held the 6th Annual Kellogg/University of Illinois Golf Outing at Stonewall Orchard Golf Club in Grayslake, Illinois—an afternoon graciously donated by the principals of Hamilton Partners. The event included a networking lunch, scramble tournament, dinner and award ceremony to follow. It was a great success, with warm weather and sunny skies for the 100-plus participants, the largest turnout to date. The winning team included Chang Lee (TMP ’03), Blake Johnson, Brian Landrum and John Cordell. KREAC would like to thank all of the corporate sponsors as well as Brian Duggan, Tim Pomaville, David Burden, Patrick Keenan, and Doug Struckman for participating in the planning effort for this event.