

GRADUATE LEVEL NEEDS AND OPPORTUNITIES IN REAL ESTATE

by Norman G. Miller and Gregory P. Gardner

The increasing importance of productive asset management has caused an industry need for more highly educated real estate professionals. Most businesses today realize that prudent real estate management is especially important in an era of high interest rates and high inflation. This heightened prominence of the need for productive asset management is also due to the rising proportion of real estate assets on the corporate balance sheet and the many technical aspects involved in its control. Meeting these industry demands requires higher level real estate education.

University programs that were once up-to-date and in line with the needs of the industry often fail to adapt to the changing times. For example, the high cost of money and the multitude of financing alternatives have caused a need for emphasis on economic, financial and legal areas and a more careful analysis before entering into a major real estate transaction.

Also, there is recent concern, especially from appraisers, that a growing proportion of feasibility studies and other related work is being completed by those who are not real estate professionals, such as accounting firms and market researchers. It is our belief that more advanced education is required in order for the real estate practitioners to recapture these lost opportunities.

The goals of this report are to present a better understanding of graduate education which will meet the current needs of the industry, and to examine the opportunities

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for and returns on the attainment of a master's degree in real estate.

Collection Of Data

In order to accomplish these goals, data was collected on some of the graduate level real estate programs currently being offered at major colleges and universities throughout the country. These course offerings were compared to the degree of importance that a multi-disciplinary sampling of real estate practitioners placed on many real estate areas. A recommendation of topical areas that should be considered in an evolving graduate real estate program based on industry emphasis is made, and the usefulness and opportunities gained from a concentrated, one-year master's program in real estate are examined.

Information was requested from 15 graduate schools in the 1980-81 *Guide to Graduate Management Education*, which were listed as offering both an MBA degree and an MS degree in real estate. Positive responses were received from 13 institutions. The Table shows a listing and frequency of the graduate level real estate course offerings at these schools.

The "core" courses — those that are most frequently offered — included advanced level real estate appraisal, investment, use and development, finance and law. Some of the other peripheral course selections included rehabilitation of residential real estate, and architecture and design factors in real estate at Golden Gate University, land resource regulations on enterprise management and real estate administration at the University of Wisconsin, and property management I and II at The American University. The preceding three universities appeared to offer the most comprehensive graduate real estate programs of the 13 schools observed.

In order to determine the needs and opportunities in the real estate industry, a two-page questionnaire was sent to 172 firms during the summer of 1981. These companies included a sampling of appraisers, property managers,

mortgage lenders and market researchers and developers in five major U.S. cities. Also included within the sample were 63 corporate real estate executives in private industry throughout the country.

The response from the survey was most favorable: 53 firms or over 30 percent of the sample replied. This rather high level of feedback for this type of survey could indicate a large degree of interest in advanced real estate education. However, it is recognized that the results of this survey might be favorably biased due to the possibility that only pro-education respondents would bother to return the questionnaire. But the relatively high level of respondents and the observation of both positive and negative replies and comments tend to diminish this possible bias.

The response rate was higher than average from appraisers and corporate real estate executives, possibly indicating more concern or recognition of the need for graduate level education in those fields.

In addition to the high response rate, more than a few respondents sent letters of encouragement and advice. There were even requests for referrals of future graduates. Furthermore, above and beyond the survey, 17 positive letters of support and recommendations were received from various real estate practitioners and instructors throughout the country. They all expressed a need for better educated real estate people. A small sampling of excerpts from these letters follows:

"Having successfully completed an MBA program 10 years ago at Arizona State University, and recognizing the tremendous changes that have taken place in the industry during the past decade, I strongly endorse the concept of a master's degree in real estate analysis."¹

"A concentrated year-long program at the graduate level in real estate would be of definite value to the industry. Many real estate development firms actively seek and recruit qualified graduates with strong real estate backgrounds."²

"My concentration was real estate finance. Upon graduation, with no related work experience, my master's degree opened the door for numerous job interviews and subsequent job offers. Financial institutions as well as developers, appraisal firms, consultants, etc., search for individuals with these talents and pay them accordingly."³

"The increasing complexity of many of today's real estate investment decisions demands that the appraiser/analyst/underwriter/developer/manager be a skilled generalist aware of the interactions of the many functional areas of real estate analysis. A graduate-level program designed to develop real estate generalists capable of understanding multi-faceted proposals would go a long way towards 'professionalizing' a very segmented industry."⁴

"It is my opinion that an intense real estate program is needed to provide both a place for students interested

TABLE

Compilation of Graduate Real Estate Course Offerings*

Courses	Frequency of course offering by 13 respondents
Real Estate Appraisal	84.6%
Real Estate Investment	84.6%
Real Estate Use and Development	69.2%
Real Estate Finance	61.5%
Real Estate Law	53.8%
Land Development	46.2%
Housing Development	38.5%
Developing Commercial Properties (Feasibility Analysis)	30.8%
Current Problems (Financing, Zoning, Government Regulations)	30.8%
Property Management	23.1%
Current Urban Land Issues	23.1%
Real Estate Income Valuation and Investment	23.1%
Regional Economic Development	15.4%
Real Estate Concepts and Analysis	15.4%
Real Estate Taxation	15.4%
Real Estate Development of Commercial and Industrial Structures	7.7%
Rehabilitation of Residential Real Estate	7.7%
Architecture and Design Factors in Real Estate	7.7%
Intermediate Business Statistics	7.7%
Real Estate Administration (Procurement, Management, Disposal)	7.7%
Valuation Analysis and Report Writing	7.7%

*The 13 institutions that responded are: The American University, Arizona State University, Florida International University, Golden Gate University, Ohio State University, San Diego State University, Virginia Commonwealth University, University of Alabama, University of Arkansas-Fayetteville, University of Oregon, University of South Carolina, University of Tennessee and University of Wisconsin-Madison.

in real estate and to provide our industry with a source of quality personnel. Industry support is evidenced by the various scholarships and foundations currently available in AIREA and SREA."⁵

"There is no question in my mind that there is a tremendous need for a higher level of education in real estate analysis. From my perspective and that of my firm, one of the biggest problems we have is finding qualified people throughout the country capable of truly analyzing real estate ventures and markets. I feel very strongly that the time is right to expand the educational programs on a graduate level especially in the fields of real estate economics, finance and computer processing."⁶

Questionnaire Results

A topic survey questionnaire was developed using a four point scale. The respondents were asked to check the appropriate degree of expertise required in each subject area. In order not to influence individual responses, firm identification was optional, although over 70 percent of the respondents chose to reveal their identity. For analysis purposes, the questionnaire was coded according to professional category.

The responses were analyzed separately according to six professional occupations and on a total overall basis. Responses from the mortgage lenders and market researchers will not be individually presented due to the small number of respondents from these groups. Their input will be included in the total results. An analysis of the survey results and some interesting differences and similarities of the respondents follows.

Seventy percent of the respondents indicated that there is an industry demand for people with a graduate level education in real estate. Only 6 percent answered "no" and 24 percent said "maybe." It is believed that many of those who said "maybe" were exercising caution due to the unknown quality of the program. An exception to this generally positive response was noted by some real estate developers.

Fifty-four percent said "yes" to the question: In your opinion, would it be better for an individual to go through a concentrated one year real estate program rather than gain practical work experience during that year? Twenty-four percent said "no" and 22 percent, "maybe." These responses indicate that a high value is placed on related work experience and even greater weight is given to advanced education. Among the professionals responding, corporate real estate executives and appraisers were most positive and developers were the most negative.

In a question concerning tax knowledge, the real estate developers placed greater emphasis on this subject than did other professions. Relatively little importance was given to estate tax knowledge by both property managers and corporate executives. In fact, of all the subject areas this one received the highest response in the "not necessary" category. The consensus of the total sample indicates that a general income tax knowledge is helpful or essential.

The majority of all the respondents places legal knowledge in the helpful to essential range. Every profession strongly emphasized the legalities of leases. Eighty-eight percent of the corporate real estate executives regarded this area as essential.

The total number of respondents gave the question involving construction-engineering plan reading a high rating in the helpful and essential categories. The appraisal profession placed greatest stress on this area. Write-in responses included plan reading ability for plot, site, lease and architectural plans.

All the respondents, and especially the developers, placed slightly greater emphasis on economic base analysis in the area of general marketing research.

The question involving site and location analysis was rated essential by 71.4 percent of the respondents. This strong positive emphasis was especially noted in the appraisal and corporate executive groups.

Feasibility analysis was given strong overall support, with 58.8 percent classifying it as essential and 47.1 percent

classifying it as helpful. This subject area is particularly important to corporate real estate personnel.

The topic of surveying was not allocated much overall weight. The majority of the respondents felt that knowledge in this area was helpful to somewhat helpful, while a sizeable 20.8 percent responded that surveying knowledge was not necessary.

The areas of construction techniques and building material knowledge received most ratings in the helpful category. Appraisers and corporate real estate personnel especially emphasized knowledge of construction techniques.

The area of financial analysis received strong overall emphasis, with 68.1 percent of the respondents rating this area as essential. Cash flow and budgeting knowledge was almost unanimously rated as being essential to developers and property managers.

Knowledge of real estate portfolio theory was generally rated as helpful to somewhat helpful. Only one respondent regarded this area as essential.

It was generally felt that knowledge of government regulations is essential to helpful. Only a relatively small percentage of the respondents rated knowledge in this area as being somewhat helpful to not necessary. Overall strong emphasis was placed on familiarity of local government regulations. Knowledge in this subject area is stressed most by appraisers and is emphasized least by property managers.

The areas of accounting and economics were rated equally, with the greatest emphasis placed in the helpful to essential categories. Of the two, familiarity with accounting procedures was rated slightly higher than economics. Appraisers and corporate real estate executives, however, emphasized knowledge of economics.

The area of mortgage lending was rated almost the same between essential and helpful. Knowledge of mortgage types received the most support, especially by developers. They also gave strong support to familiarity of mortgage loan packaging.

The importance that is placed on managerial skills is shown by the high percentage of ratings in the essential to helpful categories, 49 percent and 44.9 percent, respectively. Skills and competency in this area were greatly stressed by corporate real estate personnel and property managers, with "essential" ratings of 73.9 percent and 71.4 percent, respectively.

In general, knowledge of insurance was rated as being helpful. The professions with the most support for knowledge in this area were property managers and corporate executives.

On an overall basis, general statistical knowledge and regression techniques were rated as being helpful to essential. The strongest support for this area came from the appraisers, while the least emphasis was received from corporate real estate executives and property managers.

Of all the subject areas, communication skills received the strongest positive response. The overwhelmingly high rating of essential placed on writing and speaking skills, 85.7 percent and 77.8 percent respectively, indicates that communication skills are extremely important to real estate professionals. Among the professions, appraisers and property managers placed greatest emphasis on writing skills.

The area of investment analysis also received a strong positive response, with 62.8 percent of the respondents rating it as essential. Almost all property managers rated this area as essential.

In the area of general computer operations, only a small percentage of the total number of respondents rated it as essential. The majority classified it between the categories of helpful to somewhat helpful. Nearly 20 percent of the survey respondents rated this area as not necessary. Of all the professions surveyed, developers felt that the area of computer operations was least essential to their occupation. These results are in conflict with the letters received which supported the growing importance of computers in the real estate profession. The computer languages most commonly used are Basic, Cobol, and Fortran.

The respondents indicated that the investment analysis methods utilized most frequently were internal rate of return, net present value and payback. The appraisal methods most frequently checked were income approach, market approach, cost approach, mortgage equity, Ellwood and residual. The appraisers expressed preference for the last three methods, while the other professions relied almost equally on both income and market approaches.

There was a wide range of replies to the question concerning the kinds of practical work experiences which would be most helpful. The responses most frequently cited were finance, sales, commercial-industrial real estate, real estate management, development, appraisal, leasing, brokerage, mortgage lending, marketing and construction. From the broad range of responses and the lack of repetition except in the first few areas, it appears that nearly any work experience in real estate would be helpful in obtaining career employment.

A large variety of responses were given for the question: What areas in the real estate field offer the most opportunities for advanced degree real estate personnel over the next 5 to 10 years? Some of the areas listed were management, corporate development, finance, corporate real estate, investment, appraising, tax planning and sales. Despite these many promising areas of opportunity, it is believed that entry into the more rewarding, interesting and challenging positions can only be attained through prior related work experience or advanced education. Since many people are interested in a real estate career but do not necessarily have the prerequisite experiences, further education may be their only alternative. It is then questioned whether the investment in an advanced education is "worth" the costs?

The expected benefits of graduate education must be compared to the expected costs. The benefits include any increased earnings which result from further education as well as non-quantifiable benefits such as the higher probability of obtaining job satisfaction and the enjoyment of additional education. The cost of additional education includes both the direct cost of the education, and the individual "opportunity" cost⁷ which includes the income foregone during the period required to complete graduate level work.

Summary

The results of this research indicate that there is a demand and need for individuals in the industry who have an advanced real estate education. While the majority of the graduate level real estate programs that were surveyed offer "core" courses in the areas needed, the emphasis in the industry seems to be shifting.

Based on this research, a good, up-to-date graduate program in real estate should: 1) seek to improve and develop the student's communication skills, especially writing skills; 2) continue to emphasize site and location analysis, financial analysis and investment analysis as well as cash flow and budgeting knowledge; 3) stress the financial and legal aspects of leases; 4) emphasize feasibility and economic base analysis; 5) include local government regulations such as zoning and building codes along with mortgage types and alternative financing; and 6) develop a course or seminar on the skills and techniques of negotiation, which could be a course incorporating all the real estate areas and requiring oral persuasive presentations.

This study has shown that each of the real estate professions that responded has emphasized different areas of importance. Therefore, graduate real estate education should be somewhat general and flexible and should include instruction in real estate law, real estate finance, real estate taxes, appraisal, investment, development, statistics, computer and business applications as well as the areas already cited.

The survey results also indicate that for most qualified students the returns of obtaining a master's degree in real estate would justify the investment.

NOTES

1. Jared N. Huish, MAI, SRPA, chief appraiser, The First Interstate Bank of Arizona, N.A.
2. Charles D. Davis, manager, Training and Research Division, The Equitable Life Assurance Society of the United States, New York, New York.
3. Philip D. Morse, appraiser, real estate investment analyst, New York Life Insurance Company, Arlington, Virginia.
4. Michael L. Galonska, assistant vice president, Society For Savers, Hartford, Connecticut.
5. Lee C. Burns, MAI, SRPA, Lee C. Burns & Company, Inc., Houston, Texas.
6. James J. Walsh, MAI, Merrill Lynch Hubbard Inc., New York, New York.
7. Parts of this section are referenced to an unpublished working paper, entitled "The Value of Graduate Education in Real Estate," by Norman G. Miller, C. F. Sirmans, and Wanda L. Riggs, 1980.