

Careers in Real Estate/Finance (from Vault)

Many investment banks on Wall Street and elsewhere have groups dedicated to real estate, which are good places for someone who has an interest in both real estate and investment banking. It shouldn't surprise you that these are very finance-oriented groups and look at this field as one more asset class to make money for themselves and their partners. Products involve the repackaging of mortgages into residential mortgage-backed securities (MBS), collateralized mortgage obligations (CMOs) and commercial mortgage-backed securities (CMBS). Other popular areas include the REIT stock, bond and preferred stock origination business, lodging investment banking, principal investing in real estate and synthetic lease origination.

Some of the big players include Deutsche Bank (www.db.com), Goldman Sachs (www.gs.com), Morgan Stanley (www.morganstanley.com) and Lehman Brothers (www.lehman.com). These groups look to place money with operators (real estate developers and owners) all over the world that need it for real estate related projects. Operators, in turn, seek these groups out for funding. It's important to note that these groups look for high return deals. Higher returns mean riskier deals. They base their decision on the expected return, or what is commonly referred to as the internal rate of return (IRR). You should know this term and be comfortable explaining it in an interview. Many people are intimidated by IRRs, but they're easy to understand. For example, if you're discussing a potential investment you will want to know the associated returns, which are expected but not guaranteed. This is what an IRR is, an expected return on the investment if everything goes according to plan.

On the Job

Note: The following section is based on the structure of Goldman Sachs' real estate group so it may differ somewhat other companies.

Entry-level employees are usually referred to as analysts and spend the bulk of their time doing acquisition/valuation work. They'll also do financial modeling for proposed deals. As part of the modeling, analysts account for the IRRs to the contributed debt and equity. Additionally, they help write deal memos that are presented to the investment committee, which ultimately makes the decision on whether or not the group will invest in the deal. The memo contains the pros and cons associated with the deal as well as market risk and fundamentals. In the course of preparing the memo the analyst will have most likely visited with the parties involved with the deal and inspected the physical asset. Since these groups invest money all over the world, there is a good deal of travel. At some companies analysts have a lot of contact with the deal partners and will interact with the operators, attorneys and investors that are involved in the deal. They will seek any information that affects the risk and return of the project.

The next level is the associate, whose main duty is to oversee the work of the analyst. He or she generally handles more of the contact with the deal partners and communicates any concerns or issues to the VP. There is a degree of work redundancy between associate and an analyst.

Associates report to vice presidents (VPs) who have a supervisory role. Their main purpose is to bring in deals and make sure that those run smoothly. Managing directors (MDs) are the top dogs in this hierarchy. They are more so the dealmakers than the VPs and have the final call on things. MDs are charged with business development and securing relationships with operators.

Real Estate:

Real estate includes several areas and finance-related roles.

Areas

- Finance
- Marketing
- Management
- Construction
- Entitlement

Roles

- Real estate appraisal
- Property management
- Brokers
- Sales
- Commercial lending
- Financial analysis

- **Financial analysts** can work for large-scale real estate developers, insurance companies, equity investors, pension funds, syndicates and banks. Analysts in property development conduct significant financial analysis. They perform a variety of financial functions, ranging from measuring the rate of return on a capital improvement project to performing due diligence on real estate deals. Analysts will also often work with property managers to ensure the buildings are being maintained properly and profitably. Analysts often spend approximately two years in the position, and may move to asset management positions.
- **Property management** involves ensuring that facilities, be they commercial or residential, are maintained and leased properly, and that their value is maximized
- **Brokers** facilitate real estate transactions, and can also be commercial or residential in nature.
- **Real estate advisors** and **property asset managers** advise large investors on property investments.
- **Real estate developers** develop ideas for new properties, and then lead the financing and development.

MBA in Real Estate work closely with non-MBA professionals

There are also positions outside the finance function, and these may or may not be filled by MBA graduates. Entitlement involves engineers, attorneys, project managers, developers and architects. Marketing functions include selling and leasing properties. Positions associated with the construction aspect of real estate typically are only relevant to MBAs with a construction, engineering or architecture background.

While some companies may have training programs, it appears most positions in this field are filled on an as-needed basis.

Specific Skills & Experience

Candidates need combination of quantitative and interpersonal skills

Those hiring for finance-based real estate positions tend to look for a combination of quantitative and interpersonal skills. Most firms want candidates with quantitative experience, because many do not have MBA training programs to teach new hires the skills they will need. Candidates should come into the interview comfortable with concepts like discounted cash flow and capitalization and be willing to teach themselves new concepts as needed.

One executive noted that interpersonal skills are the most important part of the hiring process. Candidates need to be personable and responsive to others. They need the ability to make others feel comfortable with their ideas. It is also important that the candidate have some knowledge of real estate dynamics in the applicable geographic market.

Strong confidence backed by skills and experience is valued

One real estate executive noted that he likes to see candidates who are confident to the point of cocky but who also have the skills and experience to back up their attitude. The same executive noted that ambition is closely tied to being promoted within the company. Additionally, an entrepreneurial attitude helps one's candidacy.

Contacts more common than experience

It appears that significant professional experience in real estate is not a prerequisite, although it is clearly preferred. Some coursework in real estate is highly valued, although the candidate need not concentrate in the field. One executive noted that while not everyone may have real estate experience, most candidates do have a large network of contacts, especially on the sales and development side.

Applicant Differentiation

Applicants should realize that for many real estate positions, an MBA is not a necessity, and may not be a differentiator. In that case, candidates need to convince hiring managers that the MBA experience adds to their value as a potential employee. For some positions, especially those that require a strong financial acumen, an MBA is a big advantage.

Hiring comes mostly from networking and personal relationships

Candidates should realize that positions in real estate are not usually advertised on campus, nor can they typically be found on job board postings. The majority of hiring in this field comes from networking and personal relationships.

Experience and internships show desired commitment

Candidates also need to show their commitment to working in real estate. This interest could be illustrated through an internship or professional work experience. At the very least, candidates need to peruse real estate-based periodicals or websites, so they can converse easily in real estate "lingo."

Compensation:

Average MBA salaries from top-20 schools start around \$70,000 for most real estate positions.

However, if you exit your MBA program with substantial industry experience, you'll earn significantly more than your colleagues who are switching careers.

Experienced commercial brokers and asset managers have the potential to earn well in excess of \$150,000 annually, pushed into orbit by performance-based compensation. Retail broker and agent income can reach stratospheric heights as well, but tend to be less common and lower than that of commercial brokers. Compensation in property management is more stable with less upside potential. Property managers and affiliated positions often earn a solid base salary, averaging more than \$50,000, but without the upside potential of brokerage and investment roles. Roles in the services area also pay a base salary with few performance-based incentives. These roles also have the disadvantage of not being widely transferable across the industry. Corporate real estate positions offer strong base salaries and the incentive programs of the corporations in which they reside.

Resources specific to Real Estate :

Periodicals and Websites

- GlobeSt.com www.GlobeSt.com/
- ULI www.uli.org
- NACREIF www.nacreif
- Appraisal Foundation www.appraisalfoundation.org
- Appraisal Institute www.appraisalinstitute.org

- Real Estate Alert www.realert.com
- Realty Stock Review www.reri.org
- National Real Estate Investor: www.nreionline.com
- Real Estate ABCs www.realestateabc.com
- American Real Estate and Urban Economics Association <http://www.areuea.org/>
- Commercial Property News Online <http://www.cpnonline.com/>
- Journal of Finance: Other Sources <http://fisher.osu.edu/fin/journal/jofsites.htm>

Associations/Clubs

- Greater Boston Real Estate Board (\$350 annual membership)
<http://www.gbreb.com/refa/refatranslator.cfm?&criteria=association>
- Society of Industrial and Office Realtors www.sior.com
- Certified Commercial Investment Member www.ccim.com
- National Association of Industrial & Office Properties <http://www.naiop.org/>
- National Association of Real Estate Brokers <http://www.nareb.com/>
- National Association of Real Estate Investment Trusts <http://www.nareit.com/>
- National Association of Realtors <http://www.realtor.org/>