Creating Milestones Serendipitously

by Maury Seldin*

Sometimes fortuitous events occur that later become milestones. They may occur serendipitously in that you are looking for something and good fortune brings you the start of something else. That is what happened to me a half century ago.

In 1951 I was looking for a summer job. It was the summer between my sophomore and junior years at UCLA. I found one selling real estate. In the fall, when I returned to school, I changed my declared major from finance to real estate and continued selling real estate. My classes were on Monday Wednesday, and Friday. On Tuesday, Thursday, Saturday, and Sunday, I sold real estate. The mixture of academic study and business continued through the years. What started as a summer job turned out to be the beginning of an academic career. That was serendipitous.

A third of a century ago, having then recently become the Director of the Real Estate and Land Use Planning Program at The American University in Washington, DC, I was looking to round out the array of academic services with the creation of a research arm of the program. The result was the creation of the Homer Hoyt Institute (HHI). That served the purpose well. However, when an Acting Dean created bureaucratic roadblocks, the Institute (HHI) dropped the tying requirement of having the majority of the Institute’s Board Members having faculty appointments at The American University. The Institute continued to serve the function, but after the gift of the mile of ocean front land from Dr. Hoyt, a consortium of universities was selected for preferential support by the Institute. That consortium, in addition to The American University included Ohio State University, University of Florida, Wisconsin University, University of South Carolina, Florida State University, and Indiana University. The vehicle designed to bypass university bureaucracy became a foundation. A grant receiving institution became a grant giving institution. That was serendipitous.

A fifth of a century ago, the Post Doctoral School of Real Estate was founded. It later became the Weimer School of Advanced Studies of Real Estate and Land Economics. The idea arose at one of the dinner discussions that Art Weimer and I had. Dean Weimer was Chairman of the Grants and Awards Committee for the Institute. I was grappling with the issue of HHI not becoming a private foundation as a result of the large single gift and noted that becoming a support organization for a school would, according to our learned counsel, Tom Howard, Esq., meet the criteria of public support. Art came up with the idea of a post-doctoral school in real estate. What was an option for an add-on activity became the cornerstone of a remarkable educational institution. That was serendipitous.

Some milestones come by intention. More recently than the events just noted, the Institute transformed its then Advisory Board to become the founding Hoyt Fellows. The idea was Hal Smith’s. His belief is that the synergism of an industry counterpart to the Weimer School Fellows makes an excellent addition to the efforts to develop and disseminate the body of knowledge in real estate and to bridge the gap between industry and academia. It is working well. [See the report on the May meetings in this issue of ASI Newsletter.]

*Dr. Maury Seldin is Chairman of the Board of the three organizations that comprise The Hoyt Group. These are: (1) Homer Hoyt Advanced Studies Institute in Real Estate and Land Economics which houses the Weimer School of Advanced Studies in Real Estate and Land Economics, (2) Homer Hoyt Institute, the support organization for the Weimer School, and (3) Hoyt Advisory Services, the R&D unit, a wholly-owned subsidiary engaged in research and consulting. Together, these serve as a think tank in real estate and urban land economics. See the Hoyt Group webpage at www.hoyt.org.
Thus far, the Hoyt Fellows program has been financially supported by the Institute, even in times of the current tight budget. Our belief is that in time the Hoyt Fellows will pick up on the responsibility. Already, one Hoyt Fellow has noted his desire to provide some support and the expectation of others to join in. Indeed, serendipity may again arise with their decision to support research on topics most relevant to contemporary industry concerns.

If I were to pick a topic it would be the ebb and flow of funds to the real estate sector of the capital market. Clues to my reasoning are in the previous ASI Newsletter. Further information is in my welcoming remarks to the symposium that concluded the series of research roundtables on flow of funds. [see website] indeed, the composition of the Hoyt Fellows may be tilting towards institutional real estate investing because that is where the action is. But, the topics are the prerogatives of the Hoyt Fellows.

In the early years of the Institute, the decisions were made by relatively few people. As a grant receiving institution, HHI pursued grants where Mike Sumichrast and I saw opportunity for research support. Mike, a faculty member at The American University in the Real Estate Program was also Chief Economist at the National Association of Home Builders. As such, he was well connected to support sources and was a prolific researcher. He and I did a lot of work together and the Board was involved only in broad policy decisions.

As a grant giving institution, HHI decision making was heavily influenced by Art Weimer, Chairman of Grants and Awards and Homer Hoyt, Chairman of the Board. In the early years, the Board consisted of Homer Hoyt, Art Weimer, Mike Sumichrast, Nat Baily and myself. Nat Baily was founding dean of The American University School of Business Administration and of great support in getting HHI started and operating in its early years. He became Secretary-Treasurer after Mike Sumichrast and was influential in operating policy.

A major transition came after Ron Racster and Hal Smith were added to the HHI Board. Both Ron and Hal were Founding Fellows of the Weimer School and both served as Dean. As Ron accepted more and more responsibilities, he advocated wider participation in the decision making, especially in the Weimer School.

My view, in all candor, was if he was prepared to “herd cats,” go ahead. It has worked marvelously well. The size of the ASI Board has expanded as has the size of the faculty. There is great merit to team effort. Building team membership through leadership is the great challenge.

Hal has taken on that challenge with the Hoyt Fellows and is doing a great job. The serendipity comes in with who numbers among the key players. Joe Strauss, as Co-chairman, played an active role in the early recruiting. The current recruiting utilizes a broader base of the enlarged membership. The Hoyt Fellows will emerge to be a success comparable to that of the Weimer School Fellows - the ingredients are there.

The questions are who will be on the leadership team, and how will the financial support be forthcoming. The recent change in the federal tax law regarding estate taxes reduces a significant incentive for charitable contributions as estate tax exemptions rise, and income tax rates decline. Historically, HHI has funded most of its operations from gifts of problem properties. After an initial round of 100% interests, HHI acquired problem properties as part-gift and part-sale.

The Institute has never sold a gifted asset for less that the donors valuation, and is therefore a treasured recipient as compared to some charitable organizations that dump the asset on the market and virtually invite an IRS agent to work out differences of opinion on value which IRS may have as compared with the
donor's valuation. Potential donors who are on in years, and have low tax basis property that would require a lot of attention to prepare for market and to market, have a window of opportunity. The new tax package does not have the estate tax phased out until 2010. Thus, a donor could now get the deduction of fair market value without having to pay the capital gains tax and would not be stuck with an unnecessarily hefty estate tax bill along with an illiquid asset. It is a double whammy to have the tax calculated on a valuable illiquid asset and then to have to take a sacrifice price in the market place in order to raise the money to pay the taxes. Aside from the financial advantages of the gift, this is an exceptional opportunity for those who have made lots of money in real estate to financially contribute to the development of better real estate decisions, both public and private.

Some of the Hoyt Fellows have access to potential donors of real estate, especially problem real estate. They could provide the potential donors with helpful information by letting them know of the Homer Hoyt Institute as a worthy recipient of a gift of a partial interest in real estate, with the balance being a purchase for cash. This would help the Institute and the Hoyt Fellows in the mutual mission of improving the quality of real estate decision making. It is time to create some new milestones.

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Ride the Wave

By Maury Seldin*

"Stay with me," I shouted, as the current pulled me out to sea. The shout was to another body surfer on the west beach in Hawaii.

That was many years ago. Taking a break from CRE meetings, I visited with an old friend from California, then residing in Hawaii. Naturally, we went body surfing. That's what Californians do. However, I was unfamiliar with the Hawaiian currents. Growing up in Los Angeles, my early experience was with the Pacific Ocean's moderate surf. There were rip tides, true, but I could walk ashore. At this beach in Hawaii, the land dropped off precipitously so that it didn't take much to get me in over my head.

The experienced local surfer, who accompanied me in my swim back to shore, mentioned that I should have picked a fixed point on land to watch so that I could tell if the current was pulling me sideways. I agreed. That added substantially to my knowledge of currents.

More recently, I have been adding to my knowledge of chaos theory. Probably substantially, since the base is what I had picked up in conversation, and the addition is what is learned from reading the book by James Gleick, titled Chaos: Making a New Science.

An excellent example to convey the salient concept of a chaotic system is the Lorenzian Waterwheel. "Water pours in from the top at a steady rate. [The buckets in the waterwheel have holes in them resulting in a loss of water dripping through the holes.] If the flow of water [to the bucket at the top of the wheel]...is slow, the top bucket never fills up enough to overcome friction, and the wheel never starts turning. If the flow is faster, the weight of the top bucket starts the wheel in motion. The waterwheel can settle into a rotation that continues at a steady rate. But, if the flow is faster still, the spin can become chaotic, because of the nonlinear effects built into the system. As buckets pass under the flowing water, how much they fill depends on the speed of spin. If the wheel is spinning rapidly, the buckets have little time to fill up. Also if the wheel is spinning rapidly, buckets can start up the other side before they have time to empty. As a result, heavy buckets on the side moving upward can cause the spin to slow down and then reverse. In fact, Lorenz discovered, over long periods, the spin can reverse itself many times, never settling down to a steady rate and never repeating itself in a predictable pattern. [p.27]
This lack of predictability is present in forecasting currents and tides, and even more so in forecasting weather. The extent of nonperiodic flows in a physical system significantly affect the predictability. The periodicity of the forces affecting tides is greater than the periodicity of forces affecting weather, hence the difference in predictability.

As we talk of periodicity and predictability, fuzzy thinking comes to mind. We are accustomed to digitizing the variables because we process data mathematically. According to Albert Einstein, “So far as the laws of mathematics refer to reality, they are not certain. And so far as they are certain, they do not refer to reality.” [Quoted by Kosko, p3]

Kosko, in his book *Fuzzy Thinking: The New Science of Fuzzy Logic* develops the idea that I would describe by saying not all variables are digital, many are analog. Thus, attempting to quantify and classify produces a problem of some deviation from reality. Sometimes it is trivial. But, sometimes it is significant enough to affect predictability.

Having just come from a philosophy class discussing Camus’ *The Stranger*, I am mindful that not everyone sees things the same way. The existential thinking, as best as I have been able to figure out, is that we have some control over our lives, and that our actions are derived from passion as well as reason. Many of you may not have bought into that - you still believe in the economic man of Adam Smith. News flash! Behavioral economics and behavioral finance are here. They may not have “arrived,” but they are here so that we may consider that the decision making of the relevant populace is not predictable solely upon the econometrics of economic behavior.

Aside from changing economic structures associated with societal change, impeding the accuracy of forecasts based on previous structure, there are changes in players and attitudes that may severely limit the relevance of relationships revealed by the historic data. The relevant relationships may require that the focus of scale be finer than one is accustomed to. That is, if we are looking at flow of funds, for example, the analyses requires segmentation of the decision-making populations into clusters with different behaviors and some analysis of the behavior.

We may not have sufficient theory in our respective disciplines to deal with the issues. However, an interdisciplinary effort may produce a sufficient beginning of a theory to get a significant point of departure. As a step towards an intermediate solution, I have written in internal documents, “In the present case, as noted in the June 4 memo, ‘[t]he key to the analyses is that some sources of funds may consistently be early movers. Others may be consistent laggards. And, some may be those that push the prices well beyond sustainable levels. The thesis is that there are some investors who consistently behave as value investors moving in when REITs as a group are undervalued, others are momentum investors who go with the flow, and there are others who don’t go with the hard numbers but rather with the irrational exuberance, or tea leaves, or whatever. While we don’t know enough about the specifics of the behavior, we may be able to identify the groups that lead the pack. That identification is the task, as is constructing the series that will give the early signals.’”

My preference is to get some more research funding so as to be able to induce colleagues and potential colleagues to focus on an area that has the potential for a significant contribution in improving the quality of real estate decision making. In this case, the decision-making relates to the flow of investment funds to real estate, especially securitized real estate such as REITs.

Kosko, the author of the book *Fuzzy Thinking*, referred to earlier, writes, “Science prefers small steps to large creative leaps.” He goes on to say, “My fuzzy work and fight also taught me a hard fact: science differs from scientists. The product of science is knowledge. The product of scientists is reputation.” That may be true for some scientists, but, for others there is the “ah ha!,” the joy of discovery, the exhilaration of riding the wave.

There is a wave to be ridden here. There are lots of roles. It is a team effort. Come ride the wave.