

REE 6397
Real Estate Securities and Portfolios
Spring 2009, Module (4)

Instructor:	Professor David Ling
Office:	Stuzin 301C
Classroom:	Stuzin 103
Class Hours:	Monday and Wednesday, 11:45-1:40pm (periods 5-6)
Office Hours:	By appointment or Monday and Wednesday, 1:55-2:45pm (period 7)
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Website:	http://www.cba.ufl.edu/faculty/facultyinfo.asp?webid=991
CRES:	For more information on the Warrington College of Business Administration's real estate programs and activities, including information on the Alfred A. Ring Distinguished Speaker Series, see the Bergstrom Center for Real Estate Studies' (CRES) website: www.realestate.ufl.edu .

Course Description and Objective

This course covers a variety of topics in equity real estate investment including real estate investment trusts (REITs); problems in measuring risk and return; structuring optimal portfolios; portfolio valuation issues; valuing publicly-traded real estate securities; performance evaluation and attribution, commercial real estate derivatives, and public versus private valuation methods. The emphasis of the course is on multiple property valuation, risk and return, and decision-making. (REE 6395: *Investment Property Analysis* focuses on the valuation and analysis of individual income producing properties.)

The primary objectives of the class are: (1) to develop an understanding of securitized real estate as an investment vehicle; (2) to rigorously analyze the most commonly used methods and models of real estate security and portfolio valuation; and (3) to develop technical competence in the analysis and structuring of optimal real estate portfolios.

The course is applied in nature in that the actual practices of real estate professionals are taught and discussed. REE 6397 differs from REE 6208 (taught by Professor Archer) in that the focus in REE 6397 is on equity investments in securitized real estate. The focus of REE 6208 is the secondary mortgage market and mortgage-backed securities.

The prerequisite for this class is REE 6045 *or* REE 6395 *or* FIN 5427 and FIN 5439 (Finance 1 & 2) *or* enrollment in the Master of Science in Finance (MSF) program. Students are expected to be familiar with the application of basic discounted cash flow analysis (capital budgeting) to equity real estate investments. Students also are assumed to have a working knowledge of EXCEL and a financial calculator.

Means of accomplishing course objectives:

1. Course is lecture oriented. However, questions and student participation are encouraged.
2. Principles will be reinforced through questions and problems available in the reading materials and lecture notes.
3. Homework assignments, done in groups, will reinforce class material as well as expose students to the use of spreadsheet programs in real estate valuation and portfolio decision making.
4. In keeping with the applied nature of the course, many real world issues and “current events” will be discussed in class.

Assurance of Learning

Each program at the Warrington College of Business Administration has developed goals and objectives that express the most valued skills and knowledge that students should be able to demonstrate upon completion of the total learning experiences in that program. The following goals and objectives are specifically mapped to REE6397. The MSF program goals and objectives that apply to this course are:

Goal 1: Our graduates will be technically competent in their area of specialization in finance: Equities and Portfolio Management, Fixed Income, Corporate Finance or Real Estate Finance.

1D. Students will be prepared to apply appropriate financial theory and technique as analysts in the Real Estate Finance field.

Required Materials:

1. Selected chapters from *Commercial Real Estate Analysis and Investment*, by Geltner, Miller, Clayton, and Eichholtz 2nd. ed., 2007, Thompson South-Western Publishers. A custom published version of Geltner et al. that contains only these selected chapters is to be purchased (for about \$35) from Gator Textbooks (374-4500) located at 3501 SW 2nd Avenue (in Creekside Plaza). Please call ahead to make sure they have copies available. The UF (Reitz Union) Bookstore (392-0194) may also have copies. Ask for Tom Larson if you need help (<http://www.bsd.ufl.edu/G1C/bookstore/bookstore.asp>).
2. *Class Notes* for REE 6397 can be downloaded directly from the class website. The *Class Notes* contain copies of many, but not all, of the Power Point slides I will use in class.
3. A financial calculator that has the standard time value of money functions (present value, future value, annuities, etc.) and that does cash flow analysis (NPV and IRR). If you are purchasing, I would recommend the HP10BII. A tour of the HB10BII, as well as downloadable instructions and training modules are available at: <http://www.hp.com/calculators/financial/10bII/educators.html>. *Note: When taking the quizzes and final exam you will not be permitted to use a calculator with a graphical display.*
4. An e-mail address and access to a Web browser.

Note on e-mail accounts: I will frequently correspond with the class by email. All email will be sent to the student’s Gatorlink email address via the class listserve. If you frequently use an alternative email address (gmail, yahoo, etc.), it is your responsibility to check your Gatorlink email on a regular basis.

Grading and Expectations:

Homework	25%
Class participation/cooperation/attitude	10%
Quizzes	20%
Final Exam (Monday, April 27 th , Stuzin 103, 10:40-1:40pm)	45%

Some of the quizzes are likely to be unannounced. Quizzes can be made up if and only if (1) you miss class due to an illness or a job interview and (2) you inform me by email before the missed class.

There are five scheduled homework assignments. Late assignments will not be accepted. All homework must be completed.

There is a large and complex body of material to master in this class. It is essential that you come prepared to class: this means you need to have completed assigned readings and homework before class. The lectures are intended to highlight basic themes and to help you understand key concepts and techniques--they cannot cover in depth everything assigned. You are, however, responsible for learning all of the assigned material. Unless you are specifically instructed to the contrary, assume all material is fair game for quizzes and the final exam.

Class "participation" is worth 10 percent of your grade. Relevant and meaningful classroom participation during lectures will improve your participation score. However, your general cooperation and attitude toward the professor and your fellow students may be more determinative than your vocal participation. Please note that late or no attendance will adversely affect your participation grade. *I will arrive early and be prepared to start class on time. Please do the same.*

Important Administrative Issues

Department Chair

The chairman of the Department of Finance, Insurance and Real Estate is Professor Mahendrarajah Nimalendran, mahen.nimalendran@cba.ufl.edu, 352-392-9526. The Department offices are located in 321 Stuzin, 392-0153.

Computer usage during class:

Your laptops may be used in class ONLY for note taking. Web surfing, answering emails, computer card games, etc. are a distraction both to you and your peers. If you wish to use your laptop, you must (1) sit in the first or second row of the classroom and (2) let me know in person that you plan to use your laptop in class.

Make-up examinations and late assignments:

Please note that late assignments will not be accepted. A make-up exam will be offered only under extremely extenuating circumstances and only if the student notifies me well in advance of the conflict.

Regrade Policy:

To insure that all students are treated equally and fairly in the grading process, students must follow the regrade policy below if they want a quiz, homework, or exam grade to be reconsidered. Please note that for me to reconsider your grade, you must provide me with the following material no later than two weeks after the assignment was returned. If you believe that you received incorrect credit for a particular portion of your graded material, please do the following:

1. Turn in the graded course material in question.
2. Provide me with a clear, type-written case that clearly explains why you believe you received insufficient credit. Please note that to evaluate your request I will likely regrade the entire quiz, homework, or exam in order to determine if you were treated fairly relative to your peers. This could result in your grade being *lowered*.
3. Provide me with an email address where I can reach you once I have evaluated your case.

Miscellaneous University Issues:

Document retention policy:

Student course material will be retained for three weeks beyond the end of the module.

Accommodations for students with disabilities:

"Students requesting classroom accommodation must first register with the Dean of Students Office. The Dean of Students Office will provide documentation to the student who must then provide this documentation to the Instructor when requesting accommodation."

The University's honesty policy regarding cheating and use of copyrighted materials:

All students are required to abide by the Academic Honesty Guidelines set forth in the University of Florida Rules - 6C1-4 Student Affairs, 6C1-4.017 Student Affairs: Academic Honesty Guidelines. The following website contains details covering the academic honesty guidelines: <http://www.aa.ufl.edu/Handbook/students.html>.

The University's student code of conduct:

Students enjoy the rights and privileges that accrue to membership in the UF community and are subject to the responsibilities that accompany that membership. As stated in the Standard of Ethical Conduct, students are expected to treat others with respect and concern (6C1-4.016 Student Conduct Code; Violations, Penalties and Procedures for Adjudication). The following website contains details covering the student code of conduct: <http://www.dso.ufl.edu/judicial/conductcode.php>.

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Monday, March 2

Class Overview

Real Estate Investment Trusts

Class Notes, Lecture #1

Ling and Archer, *Real Estate Principles 2nd ed.* Chapter 18, pages 466-471.

Geltner, Miller, Clayton, and Eichholtz, *Commercial Real Estate Analysis & Investment 2nd ed.*, 2007, Chapter 23, pgs. 119-125.

“Frequently Asked Questions about REITs,” National Association of Real Estate Investment Trusts (www.nareit.com; click on the “All About REITs” tab at the top of the page then click on the “REIT FAQs” link).

“Forming and Operating a Real Estate Investment Trust,” National Association of Real Estate Investment Trusts (www.nareit.com; click on the “All About REITs” tab, then click on the “Forming a REIT” link).

“Ebbs and Flows-Moving Toward Liquid, Global Real Estate Portfolios,” J. Allen Smith, NAREIT, *Real Estate Portfolio*, September-October 2008, pg. 80 (distributed in class).

“REIT Policy Improvements Signed into Law,” NAREIT, *Real Estate Portfolio*, September-October 2008, pg. 14 (distributed in class).

“Navigating the REIT Crisis: How Will REITs Fare?” NAREIT, *Real Estate Portfolio*, November-December 2008, pgs. 48-52 (distributed in class).

“A Glossary of REIT Terms,” National Association of Real Estate Investment Trusts (www.nareit.com; click on the “All About REITs” tab, click on “Glossary of REIT Terms”).

Not Required

“Differences in Acquirer Motivations, Announcement Effects, Target Characteristics, and Financing in Private versus Public Acquisitions: The Case of REITs,” David C. Ling and Milena Petrova, Bergstrom Center for Real Estate Studies Working Paper, December 2008.

Wednesday, March 4

Real Estate Investment Trusts, continued

Homework #1 due (Learning about REITs and REIT data)

Monday, March 9 and Wednesday, March 11

No Class-Module Break

Monday, March 16

Measuring Investment Performance: The Concept of Returns

Class Notes, Lecture #2

Geltner et al., Chapter 9

“Got Debt?: Strong Borrowers Retain Edge in Tight Market,” Paul Rosta, *Commercial Property News*, September 2008, pgs. 18-19 (distributed in class).

Handout on estimating Beta using Excel by Professor Crocker Liu (available on class website).

Not Required

“Commercial Real Estate Valuation: Fundamentals versus Investor Sentiment,” David C. Ling, Jim Clayton, and Andy Naranjo, *Journal of Real Estate Finance and Economics*, Vol. 38, No. 1, pgs.5-37 (2009) (available on the class website).

“Institutional Capital Flows and Return Dynamics in Private Commercial Real Estate Markets?”

Jeffrey Fisher, David C. Ling, and Andy Naranjo, *Real Estate Economics*, Vol. 37, No. 1, pgs. 85-116 (2009) (available on the class website).

“The Dynamics of Asset Prices and Transaction Activity in Illiquid Markets: The Case of Private Commercial Real Estate,” David C. Ling, Gianluca Marcato and Pat McAllister, Bergstrom Center for Real Estate Studies Working Paper, October 2008 (available on the class website).

Wednesday, March 18

Measuring Investment Performance, continued

Sources of Real Estate Return Data and Associated Measurement Problems

Class Notes, Lecture #3

“Real Estate Value Indices for Performance Measurement, Asset Class Research, and Derivative Trading,” Jim Clayton, *Pension Real Estate Quarterly*, Summer 2007 (available on class website).

“Assessing Real Estate Volatility,” Michael Giliberto, *Journal of Portfolio Management*, Special Real Estate Issue, September 2003, pgs. 122-128 (distributed in class).

Not Required

Geltner et al., Chapter 25.

“Indices for Investment Benchmarking and Return Performance Analysis in Private Real Estate,” David Geltner and David C. Ling, *International Real Estate Review*, 2007, Vol. 10, No. 1, pgs. 113-138 (available on the class website).

“Considerations in the Design and Construction of Investment Real Estate Research Indices,” David Geltner and David C. Ling, *Journal of Real Estate Research*, 2006, Vol. 28, No. 2, pgs 411-444 (available on the class website).

“Estimating Returns on Commercial Real Estate: A New Methodology Using Latent Variable Models,” David C. Ling, Andy Naranjo, and M. Nimalendran, *Real Estate Economics*, Vol. 28, No. 2, Summer 2000 (available on class website).

Homework #2 due (Risk and Return in a Portfolio Context)

Monday, March 23

Sources of Real Estate Return Data and Associated Measurement Problems, continued

Real Estate Returns and Risk: Some Historical Evidence

Class Notes, Lecture #4

Geltner et al., Chapter 7

“Riding Recent REIT Volatility: Wild Ride,” Allen Kenney, NAREIT, *Real Estate Portfolio*, November-December 2008, pgs. 42-46 (distributed in class).

“Across the Volatility Chasm,” Ralph Block, *Real Estate Portfolio*, November-December 2008, pg. 128 (distributed in class).

Wednesday, March 25

Real Estate and Portfolio Theory: Strategic Investment Considerations

Class Notes, Lecture #5

Geltner et al., Chapter 21

Geltner et al., Chapter 21, Appendix 21A, pgs. 551-558, A Review of Some Statistics About Portfolio Returns Cross-Sectional and Time Series Statistics.

Monday, March 30

Real Estate and Portfolio Theory: Strategic Investment Considerations, continued

“Real Estate Comes of Age,” Jim Clayton et al., *The Journal of Portfolio Management*, September 2007, pgs. 15-26 (distributed in class).

“Hamlet and Modern Portfolio Theory,” Bernard Winograd, Prudential Real Estate Investors, July 2002 (available on class website).

“Asset Allocation in the 2000s—More Art, Less Science,” Charles F. Lowrey, Prudential Real Estate Investors, October 2002 (available on class website).

Equilibrium Asset Valuation and Real Estate’s Price of Risk in the Capital Market

Class Notes, Lecture #6

Geltner et al., Chapter 22

Geltner et al., Chapter 22, Appendix 22A: Multifactor Risk Models Applied within the Private Real Estate Asset Class (available on the class website).

Homework #3 due (Optimal Portfolio Construction)

Wednesday, April 1

Equilibrium Asset Valuation and Real Estate’s Price of Risk in the Capital Market, continued

Not Required

“The Fundamental Determinants of Commercial Real Estate Returns,” David C. Ling and Andy Naranjo, *Real Estate Finance*, Winter 1998, pgs. 13-24 (available on class website).

“Economic Risk Factors and Commercial Real Estate Returns,” David C. Ling and Andy Naranjo, *Journal of Real Estate Finance and Economics*, Vol. 14, No. 3, May 1997 (available on class website).

“The Integration of Commercial Real Estate Markets and Stock Markets,” David C. Ling and Andy Naranjo, *Real Estate Economics*, Vol. 27, No.3, Fall 1999 (available on class website).

Monday, April 6

Valuing Real Estate Investment Trusts

Class Notes, Lecture #7

Geltner et al., Chapter 23

“Offerings on Deck.” NAREIT, *Real Estate Portfolio*, September-October 2008, pgs. 33-36 (distributed in class).

“The NAV Debate,” Dean Starkman, *Real Estate Portfolio*, May/June 2005, pgs. 42-50 (available on class website).

“The 8 Governance Issues that Matter Most,” Dean Starkman, *Real Estate Portfolio*, July/August 2005, pgs. 42-50 (available on class website).

“Quick Study: Q&A with David Ling, University of Florida,” *Real Estate Portfolio*, November/December 2008, pgs. 108-110 (distributed in class).

Homework #4 due (Geltner et al. problem set)

Wednesday, April 8

No Class

Monday, April 13

Valuing Real Estate Investment Trusts, continued

Not Required

Green Street's NAV-based Pricing Model: Time for a Facelift," Green Street Advisors, Inc., October 3, 2005, pgs 1-33 (available on class website).

"The Dynamics of REIT Capital Flows and Returns," David C. Ling and Andy Naranjo, *Real Estate Economics*, Vol. 31, No. 1, 2003 (available on class web site).

"Dedicated REIT Mutual Fund Flows and REIT Performance" (David. C. Ling and Andy Naranjo), *Journal of Real Estate Finance and Economics*, Vol.32, No. 4, 2006 (available on class web site).

"The Predictability of Equity REIT Returns: Time Variation and Economic Significance," David C. Ling, Andy Naranjo, and Michael Ryngaert, *Journal of Real Estate Finance and Economics*, Vol. 20, No. 2, March 2000 (available on class website).

"Valuation Uncertainty, Institutional Involvement, and the Underpricing of IPOs: The Case of REITs," David C. Ling and Michael Ryngaert, *Journal of Financial Economics*, Vol. 43, No. 3, 1997 (available on class website).

"Liquidity of Property Shares: An International Comparison," (Dirk Brounen, Piet Eichholtz, and David C. Ling, *Real Estate Economics*, forthcoming 2009 (available on the class website).

Wednesday, April 15

Real Estate Investment Management

Class Notes, Lecture #8,

Geltner et al. Chapter 26, pgs. 223-241.

Geltner and Miller, Chapter 26, Appendix 26: The Real Estate Investment Management Institutional Landscape (available on the class website).

Not Required

"Trading Intensity and Real Estate Performance, Dirk Brounen, Piet Eichholtz, and David C. Ling), *Journal of Real Estate Finance and Economics*, Vol. 35, No. 4 (2007) (available on class website).

Homework #5 due (Flowers Residential Properties Case)

Monday, April 20

Real Estate Investment Management, continued

Commercial Real Estate Derivatives

Class Notes, Lecture #9

Geltner et al. Chapter 26, pgs. 241-248.

"REIT and Real Estate Derivatives are Introduced as a New Financial Tool in the Real Estate World," Dees Stribling, *Real Estate Portfolio*, May-June 2007, pgs. 32-36 (distributed in class).

"Commercial Real Estate Derivatives: The Developing U.S. Market," Jim Clayton, *Real Estate Issues*, Fall 2007, pgs. 37-39 (available on class website).

"Getting Into Property Derivatives," Investment Property Forum 2008 (distributed in class).

Wednesday, April 22

Commercial Real Estate Derivatives, continued

Not Required

"Commercial Real Estate Return Performance: A Cross-Country Analysis," David C. Ling and Andy Naranjo, *Journal of Real Estate Finance and Economics*, Vol. 24, No. 1 (2002) (available on class website).

Monday, April 27

Final Exam

Stuzin 103, 10:40-1:40pm.