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B40.3160 Topics in Corporate Finance  
MEC 5-90 TuTh 7:30-9:20 pm,  
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## Real Estate Market Analysis: Equity Securitization

**Course Objectives:** This course is designed to introduce students to real estate financing from an equity securitization perspective. As a necessary prelude to examining real estate securities, we first focus on analyzing the underlying real estate. This includes a market analysis of conditions in the market for space and capital is the initial point of departure. The financial analysis of real estate and the anatomy of leases are also explored. Next, alternative types of securitization vehicles are analyzed. Equity instruments explored include real estate investment trusts (REITs), commingled real estate funds (CREFs), real estate limited partnerships (RELPs) and master limited partnerships (MLPs), and real estate swaps. The course also explores real estate securitization in a mixed asset portfolio as well as international real estate securitization.

### Texts:

Bruggeman and Fisher (BF), 2001, *Real Estate Finance and Investments*, 11th Ed, McGraw-Hill Irwin,

Garrigan and Parsons (GP), *Real Estate Investment Trusts: Structure, Analysis and Strategy*, McGraw-Hill Irwin

**Reading Packet:** Readings are available for download on my website for this course. The password will be given on the first day of class.

**Case Study:** Harvard Business School, *Angus Cartwright Case*.

**Lecture Notes:** Available at NYU Professional Bookstore

**Grading:** Grading standards follow the Finance department guidelines (please refer to url <http://www.stern.nyu.edu/fin/pdfs/gradestandards98.pdf>) with students ranked based on a curve.

### Mini-Cases

Case 1: Market Analysis	10%
Case 2: Angus Cartwright	15%
Case 3: REIT Analysis	10%
Case 4: CREF Analysis	10%
Case 5: RELP Analysis	10%
Case 6: MPT Analysis	10%
Midterm Exam	15%
Final Exam	20%

Each of the mini-cases is an *individual* case study. No group submissions are allowed. Students must turn in assignments on date due by the beginning of class. No late submissions are allowed.

## Topic Schedule

### 1 Macromarket Analysis

D. Guilkey, Winter 1999, How Good Are MSA Forecasts, *Real Estate Finance*, pp. 27-41

M. Miles, Fall 1997, A Foundation for the Strategic Real Estate Allocation: The Space Market Index, *Real Estate Finance*, pp. 23-30.

M. Miles and D. Guilkey, Winter 1998, A Tactical Look at the Space Market Index, *Real Estate Finance*, pp. 39-45.

Torto Wheaton and GMAC Commercial Mortgage, Real Estate Cycles and Outlook 2001

➤ Case 1 - Market Analysis

### 2 Analysis of Income Producing Property Including Anatomy of a Lease

E. Cherry, 1995, Allocating and Insuring Risks in Leases, *Journal of Property Management*, pp. 70-71.

N. Goodhue, May/June 2000, Adapting Commercial Leases to a World of Change, *Journal of Property Management*, pp. 72-76.

K. Posner, Summer 1993, In Search of Hidden Value: Explicit and Implicit Options in Real Estate Leases, *Real Estate Finance*, pp. 47-54.

BF Chapter 9 – Introduction to Leases, Projecting Cash Flows, and Investment Value

BF Chapter 10 - Investment and Risk Analysis

➤ Case 2 - Angus Cartwright

### 3 Real Estate Investment Trusts

Y. Liang and W. Whitaker, Summer 2000, Style Attributes of Equity REITs, *Real Estate Finance*, pp. 31-36.

Moody's Favorite Ratios for Evaluating REITs and REOCs, September 2000

BF Chapter 8 – Introduction to Income-Producing Properties and Valuation Fundamentals

BF Chapter 19 - Real Estate Investment Trusts

GP Chapter 1 – Modern REIT Industry: An Overview

GP Chapter 2 – Going Public: Formation of a REIT

GP Chapter 3 – REITs as Legal Entities

GP Chapter 9 – REIT Mergers and Acquisitions

GP Chapters 12 and 13 – Historical Behavior of REIT Returns

GP Chapter 14 – Financial Analysis of REIT Securities

➤ Case 3: REIT Analysis

#### **4 Commingled Real Estate Funds and Real Estate Swaps**

J. Fisher, M. Miles, and B. Webb, Fall 1999, How Reliable Are Commercial Appraisals? Another Look, *Real Estate Finance*, pp. 9-15.

J. Fisher and D. Geltner, Spring 2000, De-Lagging the NCREIF Index: Transaction Prices and Reverse Engineering, *Real Estate Finance*, pp. 7-22.

J. Fisher, Spring 2000, Trends in Capitalization Rates from the NCREIF Database: Twenty Years of Sold Properties, *Real Estate Finance*, pp. 35-40.

J. Fisher, Summer 2000, A Repeat Sales Index for Commercial Real Estate, *Real Estate Finance*, pp. 66-71.

D. Geltner, Spring 2000, Benchmarking Manager Performance Within the Private Real Estate Investment Industry, *Real Estate Finance*, pp. 23-34.

BF Chapter 20 - Real Estate Investment Performance and Portfolio Considerations

➤ Case 4: CREF Analysis

#### **5 Real Estate Limited Partnerships**

S. Bergsman, Nov 19 2001, Vulture Funds Present Declining Opportunities, *Barrons*, pp. 29

M. Fickes, 2001, Feasting on Market Inefficiency Worldwide, *National Real Estate Investor*, pp. 26-36.

M. MacHarg, K. Berman, R. Graham, 2001, Securities Regulation Forever Unregulated: A Primer for Private Fund Sponsors – Part I, *Insights*, pp. 9-16.

B. Vinocur, 1994, As Property Values Rebound General Partners Seek to Buy Out Small Investors on the Cheap, *Barrons*, pp. 32.

BF Chapter 12 - Partnerships, Joint Ventures, and Syndications

➤ Case 5: RELP Analysis

#### **6 Real Estate in a Mixed Asset Portfolio**

J. Fisher and Y. Liang, Fall 2000, Is Sector Diversification More Important Than Regional Diversification, *Real Estate Finance*, pp. 35-40.

K. Froot, Summer 1995, Hedging Portfolios with Real Assets, *Journal of Portfolio Management*, pp. 60-77.

S. M. Giliberto, Spring 1993, Measuring Real Estate Returns: The Hedged REIT Index, *Journal of Portfolio Management*, pp. 94-99.

R. Greer, Winter 1997, What is an Asset Class, Anyway?, *Journal of Portfolio Management*, pp. 86-91.

J. Stoesser and R. Hess, 2000, Styles of Higher Return Strategies, *Journal of Real Estate Portfolio Management*, pp. 417-422.

S. Hudson-Wilson and B. Elbaum, Spring 1995, Diversification Benefits for Investors in Real Estate, *Journal of Portfolio Management*, pp. 92-99.

BF Chapter 20 – Real Estate Investment Performance and Portfolio Considerations

GP Chapter 15 – Public and Private Real Estate: Performance Implications for Asset Allocation

GP Chapter 17 – REIT Investment Strategy: The Pension Fund Perspective

➤ Case 6: MPT Analysis