

Real Estate Equity Securities Analysis
Preliminary Course Syllabus
Fall 2017 – Half Session A Course

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Office Hours: TBD

Course Schedule:

Tuesdays: 5:45 pm – 9:00 pm

Dates: 9/5/17, 9/12/17, 9/19/17, 9/26/17, 10/3/17, 10/10/17

Classroom: TBD

Course Pre-requisites / Grading:

Corporate Finance (B6300), Capital Markets (B8306), and Real Estate Finance (B8331).

It is important that students have a working understanding of real estate investment concepts and conventional corporate finance tools.

This half session “A” course is focused on the analysis of commercial real estate equity securities. It is complimented by the half session “B” course – Real Estate Debt Markets. Students may wish to take the two courses sequentially for a more complete understanding of the broader real estate capital markets.

The course grade will be based on two homework assignments (a written case study and associated analytical analysis), a final written paper (stock recommendation) and presentation as well as class participation. Additional course requirements and the grade breakdown are further detailed below.

Course Description

REITs have existed as a legal form for over 55 years, but the modern REIT era can be traced to the early 1990's. Since that time, the sector has grown from approximately \$5.0 billion in assets to over \$1.0 trillion. Perhaps more importantly, some argue that given the migration of assets and talent into the public markets these companies have become the primary value creation vehicles and operating platforms in the property sector. By some estimates REITs today comprise 15.0 - 20.0% of the investible commercial real estate market. The net result has been irrevocable structural change and increased industry stability. For our purposes however, the REIT sector has evolved into a very viable and credible investment class; the group now comprises a significant weighting of the major stock indices and has its own industry classification.

Real Estate Equity Securities Analysis will serve as a substantive introduction to the REIT and real estate securities sectors, conceptually, and as an investment. The course will provide the requisite analytical tools to value real estate stocks; we will utilize conventional securities analysis tools, on an applied basis. The ultimate goal however, is to look at real estate securities investing holistically. As such, the course will incorporate qualitative, strategic and technical considerations into the quantitative valuation analyses – the intent is to reach more rigorous and successful investment conclusions. We will utilize case studies and include senior guest speakers from issuing REITs as well as securities analysts and portfolio managers from the buy-side and the sell-side. Real Estate Equity Securities Analysis will provide the actionable skills and broad analytical insight to participate successfully in a sector that has emerged as one of the most important drivers of the real estate industry globally.

Course Outline

Session One: Introduction to REITs / Real Estate Securities

Initial overview of the traded real estate equity sector from the perspective of the relevant constituencies – Issuers, Investors and Intermediaries. Discussion topics will include:

- History – Emergence of Publically Traded Real Estate
- REITs – Why are They Important?
- Incorporating Fundamental Analysis – Securities as a Total Return Asset Class
- Technical Considerations – Investor Constituencies / Valuation Issues

Readings: REITs 101: An Introduction, Barclays

Emerging Trends in Real Estate 2017 – PWC and the Urban Land Institute

Assignment: REIT Case Study: Introduction to Publicly Available Information (Due Session Two - 9/12/17)

Session Two: Real Estate Securities Valuation

The theory and practice of securities valuation as applied to commercial real estate. This session will provide the requisite analytical tools necessary to accurately project entity level valuations. The discussion will include the intersection of GAAP accounting / conventional securities analysis and real estate. Topics will include:

- Methodologies – Valuation as an Art Form, Which is Right
- Specialist vs Generalist – NAV vs Multiples, It's all about Perspective
- Intrinsic Value – DCF and Capturing Growth
- Total Return – Yield and Growth; Implications

Readings: REIT Valuation: A New Paradigm, Barclays

Assignment: Utilizing the prior week REIT case students will do a DCF, NAV and CAD multiple Analysis (Due Session Three - 9/19/17)

Session Three: Introduce Stock Valuation Exercise

The tools applied, broadly. This session will focus on underwriting and analyzing various equity securities including REITs and C-corps, Traded and Non-traded vehicles as well as the differing methodological inputs of those entities. We will begin to broaden the discussion to include other investment considerations as well as the perspective of various industry participants. Topics will include:

- Property Sectors – Pick a Stock, Any Stock
- Financial Analysis – Do the Math
- Craft an Argument – Provide the Context
- Sell Side or Buy Side – Differing Perspectives

Reading: Company Filings / Supplementals

Assignment: Introduce Final Team Project – Stock Analysis / Recommendation Presentation

Guest Speaker: Buy-side Stock Analyst – TBD

Session Four: Qualitative Analysis

A substantive discussion of the qualitative aspects of securities analysis. These are the considerations that inform and impact the quantitative analysis as well as the entity level investment conclusion. In essence students apply their broader MBA course work to real estate, and in the process learn to see the forest from the trees. The guest speaker – a REIT CEO – will discuss how company management looks at the strategic and tactical decisions necessary to create public shareholder value. Topics will include:

- An Operating Entity – Strategy and Tactics
- Balance Sheet – Leverage and Liquidity
- Dividend Policy – Returns on Invested Capital
- Management – Measuring Quality
- Corporate Culture – Value Differentiator

Reading: Various Sell-side company analyses.

Guest Speaker: REIT CEO - TBD

Session Five: Putting it all Together

The discussion will center on combining quantitative and qualitative, tools and considerations to reach rigorous investment conclusions – both on the entity and portfolio levels – that are fundamentally sound and internally consistent. A senior buy-side portfolio manager will provide perspective on different investment strategies and as well color around career paths for investment side professionals. Topics will include:

- Portfolio Construction – Generating Alpha
- Investment Strategies – Go Long or Go Short
- Diversification – Risk Mitigation
- Equity vs Debt – Playing the Capital Stack
- Required Returns – Relative Returns

Reading: TBD

Assignment: Final Project – Written Stock Analysis / Recommendation Due (10/3/17)

Guest Speaker: Buy-Side Portfolio Manager - TBD

Session Six: Stock Pitch to Portfolio Manager Panel

The final session will provide students with the opportunity to present their final investment recommendation to a committee comprised of senior money managers active in the market currently for its critique. The equivalent of an elevator pitch – important considerations will include the quality of the analysis, thought process and actual presentation. That experience is applicable to real estate investment broadly – public and private, debt and equity. The session will include:

- Final Team Presentations – Buy, Sell or Hold
- Course Summary – Practical Applications

Guest Speakers: Investment Committee Panel – TBD

Connection with the Core Curriculum

Real Estate Equity Securities Analysis builds on a variety of topics taught in the core courses – particularly Corporate Finance, Global Economics, Managerial Economics and Strategy

Core Course	Connection with Core
Corporate Finance	<ul style="list-style-type: none">• Time value of money• CAPM• Opportunity cost of capital• Risk• Efficient Markets• Return on Invested Capital
Strategy Formulation	<ul style="list-style-type: none">• Value Creation vs. Value Capture• Trade-offs – Risk vs. Reward• Balance Sheet Strategy• Entity Level Operating Strategy
Leadership Development	<ul style="list-style-type: none">• Ethics• Decision making• Corporate Governance
Global Economic Environment	<ul style="list-style-type: none">• Inflation and the business cycle• Fiscal policy• Role of financial markets in the economy

Additional Course Requirements / Details

As noted above the course grade will be based on two homework assignments, a final written paper and presentation as well as class participation. Both homework assignments will be individual projects, while the final paper / presentation will be a combination of a team and individual effort. I anticipate forming teams of approximately four students each; it will be a joint project, but each individual will be responsible for a specified section of the report and the presentation. Your course grade will be determined as follows:

- Homework Assignments 30% (15% per Assignment)
- Final Group Paper 40% (combination individual / group grade)
- Final Group Presentation 15% (combination individual / group grade)
- Class Participation 15%

Finally, the length of the final paper will be a function of the specific analysis and the required sections but it is expected be approximately 10 – 20 pages; the presentation should be a concise summary of your conclusions and may include several power point slides as appropriate.