Real Estate Equity Securities Analysis - B8454-001
Fall 2020 – Half Session A Course via Zoom

Professor:
Ross Smotrich, Adjunct Associate
Email: rls89@columbia.edu
Phone: (914) 646-8398
Office Hours: Please Contact Me Directly

Teaching Assistant:
Vishesh Garg
Email: VGarg21@gsb.columbia.edu
Phone: (929) 400-3309
Office Hours: Please Contact Vishesh Directly

Course Schedule:
Tuesday: 5:40 pm – 8:55 pm
Dates: 9/8/20, 9/15/20, 9/22/20, 9/29/20, 10/6/20, 10/13/20
Classroom: via Zoom; please check Canvas page for zoom link

Review Sessions: TBD

Covid Addendum: TBD. Given the unprecedented nature of the current pandemic, and the implications for real estate asset and stock performance we will be hosting an additional, attendance optional, class session. It will include a senior company executive panel discussion on how Covid impacts their businesses and operating results; by extension, students will be able to incorporate that up to date information in their stock valuation analyses.

Course Pre-requisites

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.

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. More importantly, the migration of assets and talent into the public markets has helped make REITs one of the primary drivers of value creation in the real estate industry as well as a repository of operating expertise. By some estimates REITs today comprise 15.0 - 20.0% of the investible commercial real estate market; given significant competitive advantages, that share is growing. The net result has been irrevocable structural change and increased stability across the real estate industry. 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 companies that comprise the REIT and real estate securities sectors, conceptually and as an investment. The course will provide the requisite analytical tools — updated to account for the current pandemic environment — to value real estate stocks; we will utilize conventional securities analysis tools, on an applied basis. It will also look at the REITs themselves holistically, specifically how these companies work and what they are worth — currently and post-Covid. We will incorporate qualitative, strategic and technical considerations into the quantitative valuation analyses — to reach more rigorous and successful investment conclusions. Rhetorically, the course will utilize a combination of lectures and case studies, interactive group exercises and discussion. Notably, guest speakers will include senior executives from issuing REITs as well as buy-side investors — both hedge fund and global portfolio managers. The final project will group students into teams to select a specific REIT security and prepare a stock recommendation for presentation to an investment committee. Real Estate Equity Securities Analysis will provide the actionable skills and broad analytical insight to participate successfully — as an investor or as a partner — in a sector that has emerged as one of the most important drivers of the real estate industry globally.

Grading

The course grade will be based on three homework assignments, several subject quizzes, class participation and a final project (stock recommendation). The quizzes and homework assignments will be individual projects (Type B) while the final project (paper / presentation) will be a combination team / individual effort (Type A / Type B); each individual will be responsible for a specified section. Your course grade will be determined as follows:

- Homework Assignments 25% (5%, 10%, 10% Respectively)
- Quizzes 5%
- Final Group Paper 25% (combination individual / group grade)
- Final Group Presentation 25% (combination individual / group grade)
- Class Participation 20%

The specifics of the final project will be discussed in detail during the first class. We will form teams (four or five students) at the start of the semester and each team will use the analytical tools and qualitative / technical considerations discussed in class to prepare a stock analysis / recommendation for presentation to a senior investment committee. Preliminary team sign up will be available on Canvas prior to the first class, along with a choice of stocks / property sectors; we will finalize the teams / stocks subsequently. The length and format (required sections) of the written report will be determined by the specific analysis; for clarity, a sample report will be provided for your review. The oral presentation should be a concise summary of your conclusions and may include power point slides as appropriate.

Course Materials / Communication / Administration

Course communication from Professor Smotrich and the teaching assistant (Vishesh) will take place through Canvas. Students should check Canvas regularly for course updates, announcements, and other notifications.

Assigned course readings for each class will be posted on Canvas approximately one to two weeks prior to the relevant session. Power Point slides for each lecture will also be available on Canvas concurrent with the specific class.

Assignments should be turned in at the beginning of class on the day it is due. Late assignments will not be accepted. Reading materials covered by guest speakers are required.
Class participation will comprise a significant portion of your course grade. Absences and late arrivals will be considered as a factor in class participation.

Students are expected to adhere to the CBS Core Culture in this class by being Present, Prepared and Participating.

**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.

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<th>Core Course</th>
<th>Connection with Core</th>
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<td>• Return on Invested Capital</td>
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<td>Strategy Formulation</td>
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<td>• Corporate Governance</td>
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<td>Global Economic Environment</td>
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Session One: Introduction to REITs / Real Estate Securities – 9/8/20

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

- An Introduction to REITs
- Why REITs are Important – And Why You Should Care.
- Emergence of Publicly Traded Real Estate – Industry Implications

- REITs Today – Investment Characteristics, Issues and Definitions
- Fundamental Considerations – Introduction to the Implications of a Black Swan Event (Covid).
- Technical Considerations – Investor Constituencies, Sentiment and Valuation
- An Introduction to Stock Analysis (Net Asset Value)
- Thinking About REIT Securities – A Total Return Asset Class (Growth and Income)

Pre-Work:
Submit Resume / Short Bio
Sign up for Email Equity Research Distribution (Optional - On Canvas)
Form Project Teams (On Canvas - To be discussed / finalized in class)

Pre-Readings: REITs 101: An Introduction, Barclays

Session Two: Valuation Methodologies / Introduction to the Buy-Side 9/15/20

The theory and practice of securities valuation applied to commercial real estate and an introduction to the investors in REIT stocks. This session will introduce the requisite analytical tools to accurately perform entity level valuations. We will also begin to examine the qualitative considerations necessary for a substantive company analysis. The guest speaker – a senior but-side analyst will provide an overview of the industry, their firm, and the creative / unique way in which they look at stock valuation. Discussion topics will include:

- The Buy-side / Sell-side Ecosystem – Differing Perspectives
- Specialist vs Generalist Investors – NAV vs Multiples, Which Perspective is Correct

- Quantitative Methods – NAV, Multiple and DCF Analyses
- Conventional Securities Analysis Applied to Real Estate – Is GAAP Relevant
- Intrinsic Value – A Forward Perspective
- Valuation as an Art Form – And How Stocks Really Trade

Pre Readings: REIT Valuation: A New Paradigm, Barclays

Homework Due: NAV Calculation (5% weighting)

Subject Quiz: 10 Questions (Valuation Terminology)
Session Three: Predicting the Future and Strategic Decision Making - 9/22/20

The practical application of analytics to the real estate investment process. We will focus on building a predictive public company earnings model – the basis of forward valuation – and introduce the first of two company case studies. The guest speaker – a REIT CEO – will discuss how company management looks at the strategic and tactical considerations necessary to create public shareholder value in a challenging late cycle operating environment. Discussion topics will include:

- Strategic / Tactical Decision Making – The Company Level
- Doing Business with a REIT
- Practical Application of Valuation Tools
- An Earnings Model – The Basis for Successful Investing
- Underwriting the Main Food Groups / Different Property Sectors
- Changing Consumption Preferences – Impact on Space Utilization and Real Estate Fundamentals
- How to Craft an Argument – Provide Context

Pre Readings: The Year Ahead: 2019 Outlook, Barclays
Company Financial Reports

Homework Due: None

Subject Quiz: 5 Questions (Property Sector Analysis)

Session Four: Qualitative Considerations and Relative Valuation - 9/29/20

The qualitative factors that differentiate companies and how they are applied to securities analysis. Competitive advantage, operating expertise, balance sheet strength – are characteristics that inform and impact the quantitative analysis, and lead to an entity level investment conclusion. An in-class relative valuation exercise will graphically illustrate those distinctions. You will learn apply your broader MBA course work to real estate, and in the process, see the forest from the trees.

Our guest speaker, a global real estate portfolio manager, will provide perspective on different investment strategies and as well color around career paths for investment professionals. Discussion topics will include:

- REITs as Operating Entities
- Management – Measuring Quality
- Corporate Culture – Value Differentiator
- An Introduction to Relative Valuation
- Buy-side Ecosystem (Part Two) – Portfolio Management
- Building an Investment Portfolio – Balancing Risk and Return

Pre Readings: Emerging Trends in Real Estate 2019, PWC / ULI

Homework Due: Submit Company Model

Subject Quiz: 5 Questions (Portfolio Management)
Session Five: Investing in Equity Securities - Putting it all Together - 10/6/20

Combining quantitative analysis with qualitative considerations to reach rigorous investment conclusions – on the entity and portfolio levels. An in-class balance sheet exercise will highlight the risks / rewards of a capital-intensive business. The goal is an investment strategy that is fundamentally sound, internally consistent, and ideally – profitable.

The guest speaker – our second REIT CEO – will provide his broad views on the evolution of the REIT industry, stock valuation and corporate / strategic decision making in the context of the evolving real estate environment. Discussion topics will include:

- Investment Strategy and Relative Performance
- Balance Sheet Management – Leverage and Liquidity
- Diversification – Required Returns
- Managing Through Financial Crises – Growing the Business
- Equity vs Debt – Playing the Capital Stack
- Dividend Policy – Returns on Invested Capital
- Finally – How to Succeed in a Mature World. Take Market Share

Pre Readings: Company Financial / Annual Reports

Homework Due: Submit Valuation Analysis / Conclusion (Team Exercise – 10% weighting)

Subject Quiz: 5 Questions (Balance Sheet Analysis)

Session Six: Final Presentations - Investment Committee Stock Pitch - 10/13/20

The final session will provide students with the opportunity to present their final investment recommendation to a committee comprised of senior money managers currently active in the market. The panel will provide a substantive critique of your team’s investment argument and recommendation including the quality of the analysis, thought process and actual presentation. Presentation experience – even via Zoom – 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

Homework Due: Submit Final Project – Written Stock Analysis / Recommendation

Guest Speaker: Investment Committee Panel