

DEPARTMENT OF FINANCE
MCCOMBS SCHOOL OF BUSINESS
UNIVERSITY OF TEXAS AT AUSTIN

FIN 397.6 – Special Topics in Investments – REIT; unique 03785
FIN 377-3 Security Analysis – REIT; unique 03560

Spring 2016
Tuesday 3:30 – 6:30, UTC 4.134

Professor: Greg Hallman

CBA 5.161, Greg.Hallman@mcombs.utexas.edu

Class website: Canvas

Office Hours: MW 2-3 (3-4 by appt): Friday afternoon by appointment

TAs: Matteo Pacifici (MBA) and Clayton Wilson (undergrad) – both fund alums

Course Description

This course is designed to train the fund managers of the McCombs REIT fund. The goal of the class is to train REIT fund managers in both the analysis of REIT stocks and in the construction of an active REIT portfolio designed to outperform the unmanaged Bloomberg REIT index of equity REIT stocks. REITs are an interesting and unique combination of real estate assets and financial securities, and provide a very good opportunity for student fund managers to gain analytical skills in core real estate valuation and analysis, security analysis, and active management portfolio construction.

We start the course with some basic urban economics and commercial real estate analysis and valuation methods. In our second meeting we start our look at REITs with a lecture and discussion on the history and structure of the REIT industry and REIT performance as an asset class, along with the current outlook for REITs. Following our industry discussion we get into more analytical detail with a close look at REIT performance metrics and analyses and relative valuation metrics, along with a review of a few professional REIT analyst reports. Our work on REIT analyses and valuation will cover two classes, and will include a review of some literature on REIT and private market pricing, along with a close review of REIT stock analyst reports from RBC and BAML. Next we take up the subject of portfolio construction with a close look at the fund's strategy for beating the index. The "pairs trading" strategy used by the McCombs REIT fund is an important portfolio management tool that REIT fund managers and analysts learn through both lecture and practice in actively managing the portfolio. We will then have a short test to quickly nail down the important concepts. In our last class before the break we will have a model and data day" where we will cover a model that can be used in your analysis, along with the databases you will use in your analysis, including RCA, Corelogic, REIS, and Bloomberg.

In the second half of the course after we return from spring break, student managers will concentrate their efforts on analyzing REIT stocks to determine optimal portfolio weights in

the McCombs REIT portfolio. Throughout the second half of the course student managers will work in teams consisting of 1 MBA and 2 undergrads and will present their analyses to the class for critique and debate to move to a consensus on the portfolio weights for the REITs in the portfolio. Students not presenting are required to read the posted analyst reports related to the REITs being presented and to come prepared for discussion of the presentation REITs. I will also be assigning papers or topics for those not presenting and we will spend some time each class meeting reviewing the REIT market, general economy, and special topics along the way that we find particularly useful or relevant.

Grading

<u>Assignment</u>	<u>date</u>	<u>%</u>
Midterm	Tuesday, Feb 23	30%
Pairs presentation	TBD in second half	50%
Class Participation	ongoing	20%

Academic dishonesty will not be tolerated. Your responsibilities with regard to scholastic dishonesty are described in detail in the Policy Statement on Scholastic Dishonesty for the McCombs School of Business.

Course Materials

The required material for the course will be provided on Canvas. There is no text for the course, but I will post material throughout the semester on the canvas site and I expect you to keep up with the readings that I post and read them before we meet.

Course Schedule

meeting	DAY	DATE	TOPIC
1	Tues	Jan-19	<u>Real Estate</u> - Urban Economics (the market for space) and the Real Estate Cycle; Basic commercial real estate financial analysis and a few valuation, risk, and performance metrics
2	Tues	Jan-26	<u>REITs and the REIT Industry</u> - Structure, history, investment characteristics, REIT outlook today; start discussion of macro and industry outlook, relative strengths of property types for possible sector OW/UW.
3	Tues	Feb-2	<u>REIT valuation and analysis</u> – performance evaluation, valuation, and relative value metrics; FFO multiples and implied vs. market cap rates
4	Tues	Feb-9	<u>Finish REIT valuation topics</u> with emphasis on the use and interpretation of FFO multiples and implied vs. market cap rates; review of literature on public and private real estate asset pricing with focus on lead-lag relationship at market turns; additional discussion re: state of the CRE and REIT market Review BAML and RBC analyst reports (Rich Moore – RBC, and Jamie Feldman – BAML, are on our REIT Fund Advisory Board and kindly have me on the DL for these reports.)
5	Tues	Feb-16	<u>Active portfolio management (fighting an index)</u> - Managing Performance and Risk Against an Index Pairs-trading and tracking error math
5	Tues	Feb-23	Midterm
6	Tues	Mar-1	<u>Data and model day</u> – Using data and data tools in the REIT model and analysis. REIT Fund alumni and class TAs Matteo Pacifici and Clayton Wilson will present a REIT excel model, Matteo will present a little on Bloomberg, Ph.D. TA Amin Shah will present on RCA and CoStar, possible speakers from local real estate data shop Real Massive. } Overall Goal – accessing and using SNL, RCA, CoStar, Bloomberg, Real Massive, etc. in your work, and telling us about it. <i>I want you to DIG in the DATA, and I want to see what you found; we all want to see what you found.</i>

Tues Mar-8 MBA GLOBAL TRIP WEEK – no class

Tues Mar-16 SPRING BREAK – no class

- 7 Tues Mar-22 Review of the current McCombs REIT portfolio and careful review of the latest REIT Fund memo.

Review REIT fund spreadsheet model, sample pairs decks, and possible ideas for analyst-style report product; final discussion of economic outlook, CRE outlook, REIT outlook, cap rate and interest rate outlook, etc – we have to work under a common outlook as we choose among pairs – *extremely important*;

Review correlation matrices and make choices of REITs to analyze; **schedule presentations**

- 8 Tues Mar-29 Pairs presentations (3 presentations @ 35-40 minutes each) [3 MBAs, 6 undergrad analysts]

- 9 Tues Apr-5 Pairs presentations (3) [3 MBAs, 6 undergrad analysts]

- 10 Tues Apr-12 Pairs presentations (3) [3 MBAs, 6 undergrad analysts]

- 11 Tues Apr-19 Pairs presentations (4) [4 MBAs, 8 undergrad analysts]

- 12 Tues Apr-26 Review and discuss investor memo to-do list and memo construction

- 13 Tues May-3 Finalize memo, work with tracking error calculations, determine trades.

post-class dinner at Cain and Abel's – I buy food – please be there.