

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

FIN 397.6 – Special Topics in Investments – REIT; unique 03925  
FIN 377-3 Security Analysis – REIT; unique 03670

Spring 2017  
Tuesday 3:30 – 6:30, GSB 2.122

Professor: Greg Hallman  
CBA 5.161, [Greg.Hallman@mcombs.utexas.edu](mailto:Greg.Hallman@mcombs.utexas.edu)  
Class website: Canvas  
Office Hours: Wednesday and Friday 2:00 – 3:00, and Friday 3:00 – 4:30 (REIT only)

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 on REIT analyses 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 material I post.

## Course Schedule

meeting	DAY	DATE	TOPIC
1	Tues	Jan-17	<u>Real Estate</u> – some meet and greet; then Urban Economics (the market for space) and the Real Estate Cycle; Basic commercial real estate financial analysis and a few property-level valuation, risk, and performance metrics
2	Tues	Jan-24	<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	Jan-31	<u>REIT valuation and analysis</u> – performance evaluation, valuation, and relative value metrics; FFO multiples and implied vs. market cap rates
4	Tues	Feb-7	<u>Finish REIT valuation topics</u> with emphasis on the use and interpretation of FFO multiples and implied vs. market cap rates.  Review analyst outlooks and reports for the industry.
5	Tues	Feb-14	<u>Active portfolio management (fighting an index)</u> - Managing Performance and Risk Against an Index Pairs-trading and tracking error math
6	Tues	Feb-21	Research on REIT investing – a look at some academic research on REIT investing, pairs investing, and REIT returns. MBAs will present papers and comment on how we might implement or use the ideas in building our REIT portfolio; I'll help get presentations together and help with discussion.
7	Tues	Feb-28	<b>midterm</b>
	<i>Tues</i>	<i>Mar-7</i>	<i>MBA GLOBAL TRIP WEEK – no class</i>
	<i>Tues</i>	<i>Mar-14</i>	<i>SPRING BREAK – no class</i>

- 8      Tues    Mar-22    Work-through REIT model with an example; using SNL to pull REIT financial data; using REIS to pull market analysis and data; review past pairs presentations; review current REIT memo and portfolio from Fall 2016

Choose REITs to analyze in pairs based on asset similarity and equity return correlations; **schedule presentations.** We have 4 pairs-presentation days in the second half, and we'll cover 2 pairs a day (2 pairs = 4 names). In this spring semester as you get started I want us to cover the four major industry food groups: we'll do 2 office pairs on the same day, 2 retail pairs on the same day, 2 multifamily pairs on the same day, and 1 industrial pair and 1 healthcare pair in the fourth of our pairs presentation days.

- 9      Tues    Mar-28    Pairs presentations – (2 @ ~45 minutes each)

Each pairs presentation will have an MBA and an analyst on each REIT, so 2 pairs presentations each class requires 4 MBAs and 4 analysts.

- 10     Tues    Apr-4    Pairs presentations (2) [4 MBAs, 4 undergrad analysts]

- 11     Tues    Apr-11   Pairs presentations (2) [4 MBAs, 4 undergrad analysts]

- 12     Tues    Apr-18   Pairs presentations (2) [4 MBAs, 4 undergrad analysts]

- 13     Tues    Apr-25   Review and discuss investor memo to-do list and memo construction

- 14     Tues    May-2    Finalize memo, work with tracking error calculations in class to determine final positions and trades, trade the portfolio the next day.

*post-class dinner at Pluckers – I buy food – please be there.*