



FIN 397.6 – Special Topics in Investments – REIT; unique 03350  
FIN 377-3 Security Analysis – REIT; unique 03070

Spring 2018  
Tuesday 3:30 – 6:30, SZB 330 (Education building)

Professor: Greg Hallman

Office CBA 5.161

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Class website: Canvas

Office Hours: by appointment on Canvas calendar: Monday by phone or Gotomeeting,  
Wed 1:30 – 4:00 and Thursday 2:30 – 4:00 in office GSB 53161

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Course Description

This course is designed to train the fund managers of the McCombs Real Estate Fund. In this first semester of the two semester class, the goal is to train real estate 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. In the fall semester the training will focus on underwriting and analyzing private value-add real estate investments, and students will work on both REIT analyses and private-deal analysis, depending on the availability of private deal flow available to the fund.

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.

### Grading

<u>Assignment</u>	<u>date</u>	<u>%</u>
Midterm	Tuesday, Feb 27	30%
Pairs presentations	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.

### McCombs Classroom Professionalism Policy

The highest professional standards are expected of all members of the McCombs community. The collective class reputation and the value of the Texas MBA experience hinges on this.

**You should treat the Texas MBA classroom as you would a corporate boardroom.**

Faculty are expected to be professional and prepared to deliver value for each and every class session. Students are expected to be professional in all respects.

The Texas MBA classroom experience is enhanced when:

- **Students arrive on time.** On time arrival ensures that classes are able to start and finish at the scheduled time. On time arrival shows respect for both fellow students and faculty and it enhances learning by reducing avoidable distractions.
- **Students display their name cards.** This permits fellow students and faculty to learn names, enhancing opportunities for community building and evaluation of in-class contributions.
- **Students are fully prepared for each class.** Much of the learning in the Texas MBA program takes place during classroom discussions. When students are not prepared, they cannot contribute to the overall learning process. This affects not only the individual, but their peers who count on them, as well.
- **Students respect the views and opinions of their colleagues.** Disagreement and debate are encouraged. Intolerance for the views of others is unacceptable.
- **Students do not confuse the classroom for the cafeteria.** The classroom (boardroom) is not the place to eat your breakfast tacos, wraps, sweet potato fries, or otherwise set up for a picnic. Please plan accordingly. Recognizing that back-to-back classes sometimes take place over the lunch hour, energy bars and similar snacks are permitted. Please be respectful of your fellow students and faculty in your choices.
- **Students minimize unscheduled personal breaks.** The learning environment improves when disruptions are limited.
- **Students attend the class section to which they are registered.** Learning is enhanced when class sizes are optimized. Limits are set to ensure a quality experience. When section hopping takes place some classes become too large and it becomes difficult to contribute. When they are too small, the breadth of experience and opinion suffers.
- **Technology is used to enhance the class experience.** When students are surfing the web, responding to e-mail, instant messaging each other, and otherwise not devoting their full attention to the topic at hand they are doing themselves and their peers a major disservice. Those around them face additional distraction. Fellow students cannot benefit from the insights of the students who are not engaged. Faculty office hours are spent going over class material with students who chose not to pay attention, rather than truly adding value by helping students who want a better understanding of the material or want to explore the issues in more depth. Students with real needs may not be able to obtain adequate help if faculty time is spent repeating what was said in class. There are often cases where learning is enhanced by the use of technology in class. Faculty will let you know when it is appropriate.
- **Phones and wireless devices are turned off.** We've all heard the annoying ringing in the middle of a meeting. Not only is it not professional, it cuts off the flow of discussion when the search for the offender begins. When a true need to communicate with someone outside of class exists (e.g., for some medical need) please inform the professor prior to class.

### Students with Disabilities

Upon request, the University of Texas at Austin provides appropriate academic accommodations for qualified students with disabilities. Services for Students with Disabilities (SSD) is housed in the Office of the Dean of Students, located on the fourth floor of the Student Services Building. Information on how to register, downloadable forms, including guidelines for documentation, accommodation request letters, and releases of information are available online at <http://deanofstudents.utexas.edu/ssd/index.php>. Please do not hesitate to contact SSD at (512) 471-6259, VP: (512) 232-2937 or via e-mail if you have any questions.

### Course Schedule

meeting	DAY	DATE	TOPIC
1	Tues	Jan-16	<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 basic property-level valuation, risk, and performance metrics.
2	Tues	Jan-23	<u>REITs and the REIT Industry -</u> Structure, history, investment characteristics, REIT outlook today.
3	Tues	Jan-30	<u>REIT valuation and analysis</u> – performance evaluation, valuation, and relative value metrics; FFO multiples and implied vs. market cap rates
4	Tues	Feb-6	<u>Finish REIT valuation topics</u> with emphasis on the use and interpretation of FFO multiples and implied vs. market cap rates.
5	Tues	Feb-13	<u>Active portfolio management (managing against an index) -</u> Managing Performance and Risk Against an Index Pairs-trading and tracking error math
6	Tues	Feb-20	<u>Research on REIT investing</u> – a look at some academic and practitioner 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. A little midterm review.
7	Tues	Feb-27	<b>Midterm</b>

*Tues Mar-6 MBA GLOBAL TRIP WEEK – no class*  
*Tues Mar-13 SPRING BREAK – no class*

- 8      Tues    Mar-20    Work-through REIT excel model with an example; using SNL to pull REIT financial data; using CoStar or REIS to pull market analysis and data; look at past pairs presentations; review current REIT memo and portfolio from Fall 2017.

Choose REITs to analyze in pairs based on asset similarity and equity return correlations; **schedule presentations.**

- 9      Tues    Mar-27    REIT deep-dive presentation by Ryan Dobratz, CFA, Real Estate Portfolio Manager, Third Avenue Management LLC, NY (now offices here in Austin)
- 10     Tues    Apr-3     2 pairs-presentations [4 MBAs, 4 undergrad analysts]
- 11     Tues    Apr-10    2 pairs-presentations [4 MBAs, 4 undergrad analysts]
- 12     Tues    Apr-17    One pair + One triplet [ 5 MBAs, 5 undergrads]
- 13     Tues    Apr-24    Review and discuss investor memo to-do list and memo construction
- 14     Tues    May-1     Finalize memo, work with tracking error calculations in class to determine final positions and trades

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