TEXAS McCombs

The University of Texas at Austin
McCombs School of Business
MBA

FIN 397.6 – Special Topics in Investments – REIT; unique 04100
FIN 377-3 Security Analysis – REIT; unique 03835

Spring 2021
Tuesday 3:30 – 6:30, via Zoom through Canvas

Professor: Greg Hallman
Office: physical = CBA 5.161; zoom = https://utexas.zoom.us/j/5779495651
email: Greg.Hallman@mccombs.utexas.edu
Class website: Canvas
Office Hours: Thursday 2:30 – 3:30; also available by appointment
TA: Isabel Pryzant, Isabel.Pryzant@mba21.mccombs.utexas.edu

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 a private equity investment analysis and make a presentation to the fund's investment committee.

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 in today's investment and interest rate environment.   Following our industry discussion, we take up the subject of valuation, which we do two ways with REIT stocks. First, we value REIT stocks using stock valuation metrics and techniques, including FFOx, AFFOx, PEG ratios, and a DDM valuation model. Our second valuation method values REITs as a portfolio of real estate assets, and in this "real estate valuation" we value the real estate assets held by the REIT, subtract off the

debt, and then divide the resulting equity value by the number of shares and OP units outstanding. After valuation we take up the subject of portfolio construction with a close look at the fund's strategy for beating the index. The over-under 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. Our portfolio discussion will include strategies for producing alpha against an unmanaged index with publicly traded real estate stocks, along with a careful consideration and measure of the risk we are taking in the process. We will wrap up the REIT training with a class discussion of recently published REIT research. In the final meeting before spring break we will review the take-home midterm to nail down the important concepts students will need to perform the required analysis in the second half of the semester.

In the second half of the first semester, 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 to determine over-under active positions and will present their analyses to the class for discussion and debate.

Grading

Assignment	date	%
Take-home Midterm	due Tuesday, March 2	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 read 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.

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 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.
- **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. 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.

<u>Students with Disabilities</u>

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://diversity.utexas.edu/disability/how-to-register-with-ssd/. Please do not hesitate to contact SSD if you qualify for accommodations.

Course Schedule

meeting	DAY	DATE	TOPIC
1	Tues	Jan-19	some meet and greet, review of the syllabus, review of the how the class works in terms of student work and presentations; Real Estate – a little Urban Economics (i.e., the market for space), a look at the real estate cycle with a review of Nordby et. al., re: Tobin's Q and real estate development.
2	Tues	Jan-26	REITs and the REIT Industry - Structure, history, investment characteristics, REIT outlook today. *[Read one of the REIT primers and the NAREIT 2021 outlook, available through/in Canvas.]*
3	Tues	Feb-2	REIT valuation and analysis – Valuing REITs as stocks; measuring and using FFO and AFFO multiples, applying a two-stage DDM model to *identify* potential trades.
4	Tues	Feb-9	REIT valuation and analysis – Valuing REITs as real estate; measuring and using NAV, NAV premiums, and implied cap rates; public-private arbitrage.
5	Tues	Feb-16	Active portfolio management - Managing Performance and Risk Against an Index; Pairs-trading and tracking-error math
6	Tues	Feb-23	REIT research – a look at some academic and practitioner research on REIT investing and REIT performance analysis. Pairs or groups of MBAs will present papers and consider how we might implement or use the ideas in building our active REIT portfolio. A little midterm review.
7	Tues	Mar 2	**take-home Midterm due online 1 hour before start of class – to be reviewed in class**
	Tues	*Mar-9*	*MBA 'bonus-break' WEEK – no class*
	Tues	*Mar-16*	*SPRING BREAK – no class*

| 8 | Tues | Mar-23 | Review REIT memo from Spring 2020 to get an overview of what we need to accomplish and ultimately produce by the end of the semester. Choose REITs to analyze in pairs based on asset similarity and equity return correlations; REIT analyzed last year are off-limits so that those bets can get another year of performance; **schedule presentations.** |

The presentation scheduling process usually works as follows: I will have the presentation calendar up on my laptop, I will draw numbers for the MBAs to determine the order they will schedule themselves on the calendar along with choosing the REIT sector (property type) they want to analyze. Once MBAs and property types are scheduled, I will draw numbers for analysts to determine the order in which analysts will schedule themselves.

(Scheduling Note – we have 17 MBAs and 19 undergrads, so one MBA will present twice, and one REIT or one pair will have an extra analyst, likely an extra analyst in the healthcare/MOB/Assisted Living space which has very large REITs and unique regulations and payment structures)

I will pull and post Green Street sector research on the names and sectors we are going to analyze.

| 9 | Tues | Mar-30 | <u>REIT Excel model</u> - work-through REIT excel model; demonstrate S&P Global to pull REIT financial data; demonstrate RCA to pull market analysis and data; look at a couple of past pairs presentations. |

| 10 | Tues | Apr-6 | 2 pairs-presentations *[4 MBAs, 4 undergrad analysts]* |

| 11 | Tues | Apr-13 | 2 pairs-presentations *[4 MBAs, 4 undergrad analysts]* |

| 12 | Tues | Apr-20 | 2 pairs-presentations *[4 MBAs, 4 undergrad analysts]* |

| 13 | Tues | Apr-27 | 3 pairs-presentations *[6 MBAs, 6 undergrad analysts]* |

| 14 | Tues | May-4 | Meet to finalize memo and active positions, review estimated tracking error versus 5% budget constraint; all pairs write-ups in final memo form are FINISHED by this meeting. You will upload your 2-pager in pdf to Canvas and Isabel and I will put the parts together and construct the final memo, which I'll then post for your review and distribution to any interested parties. Pluckers party if possible. |