NEWS FROM **The Hoyt Group**

Homer Hoyt Institute | **Weimer School** of the Maury Seldin Advanced Studies Institute

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January 2013 Weimer School Session

2013 Weimer School Fellows! L-R Dr. Yuming Fu, Dr. Anthony Pennington-Cross and Dr. Robert Avery

The January session was well-attended with more than forty participants, including faculty, Weimer School Fellows and invited guests. Hoyt Fellows Jack Coyle (Coyle, Lynch and Company), Hugh Kelly (Real Estate Economics), Richard Langhorne (The Langhorne Company) and Gary Ralston (CBC Saunders Ralston Dantzler Realty) attended, along with 2010 Halbert C. Smith Honorary Weimer School Fellow, Greg Ingram (Lincoln Institute of Land Policy).

Reporting on their research at the January 17 - 20 2013 session of the Weimer School to complete requirements to become Weimer School Fellows were Dr. Robert Avery (Federal Housing Finance Agency), "**The Subprime Crisis: More Thoughts on its Cause**;" Dr. Anthony Pennington-Cross (Marquette University), "**An Examination of Industrial Property Rents in Chicago**;" and Dr. Yuming Fu (National University of Singapore), "**Determinants of Real Estate Risk Premiums: An Empirical Investigation**." First year candidates presenting their proposed research topics were Dr. Morris Davis (University of Wisconsin-Madison), "**Housing Defaults when House Prices are Uncertain**;" Dr. Albert Saiz (Massachusetts Institute of Technology), "**Evaluating Architectural Aesthetic Externalities Using Revealed Preference**;" Dr. Marlon Boarnet (University of Southern California), "**Measuring Rail Transit's Sustainability Goals: A Before-After, Experimental-Control Evaluation of Los Angeles' Expo Light Rail Line**;" Dr. Jeff Zabel (Tufts University), "**A Disequilibrium Model of the Housing Market: The Role of Vacancies & Foreclosures**;" and Dr. Dirk Brounen (Tilberg University), "**The REIT Regime: An International Examination on Stock Performance**."

Presentation summaries provided by the Weimer School Fellows and Fellow Candidates can be found on pages 2-4 of this newsletter.

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Presentation Summaries
From the January 2013 Weimer School session

The Subprime Crisis: More Thoughts on Its Cause

Robert Avery
Federal Housing Finance Authority

This paper details the development of a new national mortgage database and presents some preliminary evidence on the origins of the subprime crisis. The database was developed in response to the clear evidence that the supervisory, policy and research communities had lacked the information to identify the buildup of the crisis before it happened. The database, which is jointly funded by the FHFA and CFPB, is based on a 1-in-20 sample of first lien mortgages reported to the credit bureaus at any time since 1998. The entire credit records from 2001 to the present of all co-signers of each sample mortgage--including credit cards, 2nd liens and other mortgages-- are assembled along with additional information on the borrowers and property from other sources. The database is about one-half complete at this time as considerable cleaning and processing is required. The full rollout is targeted for the end of 2013. The resulting historic database will provide a unique perspective on the crisis. Going forward, the database will be updated each quarter with a 1-in-20 sample from newly originated mortgages. Several intriguing facts emerge from a preliminary analysis of the data. First, first-time home buyers from the 2004/5 cohort do appear to be somewhat more likely to have defaulted by 2010 than otherwise comparable mortgagees but this is not the case for the 2006/7 cohort of first-time homebuyers. However, borrowers who rolled over their loans from 2004/5 to 2006/7 are much more likely to have defaulted than otherwise comparable 2006/7 borrowers. Similarly single borrowers (no co-signers) particularly males, are much more likely that average to have defaulted than others. This is true of all cohorts. Further details on this suggestive evidence will hopefully be available next year.

Measuring Rail Transit's Sustainability Goals: A Before-After, Experimental-Control Evaluation of Los Angeles' Expo Light Rail Line

Marlon G. Boarnet
University of Southern California

Los Angeles plans to open six new rail transit lines between 2012 and 2020. Once completed, the world's first "automobile city" will be home to a rail transit network with more service miles than the Washington Metro has today. Marlon Boarnet presented early research that will track the impact of the new rail transit investments. Using the recently opened Exposition (Expo) light rail line as a case study, Boarnet and co-investigator Doug Houston are leading a multi-year, longitudinal evaluation of the travel and transportation impacts of new light rail. Boarnet presented early data from a 7-day travel survey of 285 households along the Expo Line corridor. In 143 of the households an adult carried a geographic positioning system device (GPS, which tracks location) and an accelerometer (which measures physical activity) during the seven day survey period, and all households self-reported their travel. Households are divided into two groups – an experimental group, within ½ mile of the Expo Line stations, and a control group, distant enough from the new stations that, based on estimates from the literature, household travel will not respond to the new rail line. The results will yield one of the first controlled, before-after studies of the impact of new rail transit on travel and physical activity, allowing an evaluation of the role that rail transit can play in meeting California's greenhouse gas emission reduction goals and, in later extensions of the research, the impacts of rail transit on land values and neighborhood development.

The REIT Regime: An International Examination on Stock Performance

Dirk Brounen
Tilberg University

This project analyzes the stock performance effects of international introduction of REIT regimes. Introducing a tax transparent REIT regime offers real estate investment firms a new trade-off between tax advantages and reduced corporate flexibility with respect to dividend payout policy, capital structure and the span of their activities. We will use data from the REIT regime introductions in Japan, Singapore, France, the U.K. and Germany. Using over twenty years of information, we empirically test the effects of REIT conversions on stock liquidity, stock ownership, stock return and risk composition.

Industrial Property Rents in the Chicago Metropolitan Area: Property and Property Clusters, Lease and Lease Term Structures, Location and the Local Market

Anthony Pennington-Cross
Marquette University

The lack of readily available constant quality prices and rents in commercial property markets can only hinder market efficiency and lead to suboptimal location choices by firms and suboptimal rents. This paper utilizes a data source that is widely available and used by commercial brokers and other market participants. We estimate a constant quality rent transaction index for industrial property in the Chicago metropolitan area. Compared to average rents and asking rents, the estimated constant quality index shows a smaller run up in rents from 2003 through 2008 and a larger drop off in rents through 2012. In the hedonic estimation, property, lease and local demographics play important roles in determining rents while transportation infrastructure has little influence. Industrial property tends to cluster around transportation infrastructure (rail lines, airports and interstate highways in particular) and there is some evidence that this clustering is associated with higher rents. The evidence also indicates that there is a lease term structure premium but it only applies to long term leases (over 10 years).

Housing Defaults When House Prices are Uncertain

Morris Davis
University of Wisconsin - Madison

For 20 different metro areas over the 2000-2010 period, we compare changes over time to the average self-reported value of owner occupied housing and changes to the Case-Shiller-Weiss (CSW) repeat sales price index. We show self-reported home values did not increase as fast as CSW indexes during the 2000-2006 boom period and did not decline as steeply as CSW indexes during the 2007-2010 bust period. During both the boom and bust, self-reported values changed by about 70 percent of the change in the CSW indexes. We show that it looks like homeowners are applying the Kalman filter to reported CSW house price indexes, which is optimal if CSW indexes are a noisy signal of underlying true house prices. We discuss the implications for predicted default rates when homeowners believe their house is worth more than is predicted based on the CSW indexes.

Cyclical Real Estate Risk Premium—An Empirical Investigation

Yuming Fu
National University of Singapore

Recent studies of general equilibrium asset pricing for an open economy suggest that equity risk premium rises with inflation, which weakens the economy, and with interest-rate drops, which push savings to risky assets. Consequently, the real expected return (equal to risk premium plus real interest rate) would be insensitive to changes in inflation and interest rates. In contrast, the impact of inflation and interest rates on real estate risk premium is dampened by the attractiveness of real estate as inflation hedge and by the reliance of real estate investment on debt financing, making real estate real expected returns more sensitive to inflation and interest rates. Our analysis of the real estate and stock market data in Hong Kong over the past three decades confirms these predictions. In particular, real estate risk premium appears totally insensitive to the interest rate. The decline of real estate expected returns relative to the equity expected returns that occurred in Hong Kong over the past two decades can thus be explained by the downward trend of the interest rate during that period.

A Disequilibrium Model of the Housing Market: The Role of Vacancies and Foreclosures

Jeffrey Zabel

While the hedonic property value model assumes the housing market is in equilibrium, recent years have witnessed extreme circumstances such as large changes in housing prices, high levels of mortgage default, and high levels of foreclosure that bring into question this assumption. In this analysis, Jeff Zabel develops and estimates a disequilibrium model of the housing market where the role that vacancies and foreclosures play is explicitly modeled. He estimates this model using annual U.S. data at the MSA level for 1999-2011. The results will shed some light on the impact of policies aimed at reducing foreclosures on market disequilibrium and the length of spells of disequilibrium

Evaluating Architectural Aesthetic Externalities Using Revealed Preference

Albert Saiz
Massachusetts Institute of Technology

Can we measure architectural beauty? Professor Saiz presented new results from his ongoing research that exploits user-generated content – photos shared by tens of thousands of individuals at Google Maps® – to explore preferences for architecture, and how that affects consumer behavior.

New Tools for Student Engagement and Research: Scoop.It! (www.Scoop.It)

Norm Miller

A set of 4 students from the University of San Diego have been scooping articles on Sustainable Real Estate. They joined several students from the University of Wisconsin and ESSEC and Sorbonne in March at MIPIM (Le marché international des professionnels de l'immobilier), an international property event in France featuring over 20,000 real estate professionals. At the event, they helped to cover conference sessions acting in the role of journalists or reporters and feeding in summaries and blogs to conference organizers. For several years François Ortalo-Magné, now Dean at the University of Wisconsin, has been providing a summary of the conference in a closing session with the help of his students, but MIPIM is now sending out such scoops to all its members, reaching a large audience and sometimes getting picked up by other media.

So what is scooping? Scoop.It (www.Scoop.It) is a website that allows the automatic scan of articles from various media on a daily basis. The site then sends the user a daily email of articles that may be of interest. The users of this site can set up a profile where they collect and comment on their favorites. The basic sign-up for the site is free, with premium plans featuring advanced capabilities available for a fee.

There are currently three topics I follow: great urban places, innovative building designs and sustainable real estate. For each, I have a profile and followers who wish to see what I collect. This activity takes a few minutes a day or about an hour a week for active scanners. It has turned out to be a great tool for our students, engaging them in research and improving their writing skills. Our students now have hundreds of followers, as their scoops are posted automatically on Twitter, Facebook, Linked-in and other social media applications. These scoops can even be embedded as links on a website. Although I don't spend a great deal of time on it, as an example, one of my Scoop.It links is http://www.scoop.it/t/sustainable-real-estate

There are similar websites that curate articles for which many of you use Google or Yahoo to collect news on certain topics. Apple has an affiliation with Scoop.It called Read.it. What makes Scoop.It especially unique is that it seems to be ideally integrated into social media and makes dissemination easy. It's a great tool for your students and perhaps even for yourself. | *Article by Norm Miller, University of San Diego* |

2013 Hoyt Fellow—Weimer School Program
The Hoyt Center / 760 US Highway 1, Suite 300 / North Palm Beach, FL

An Outstanding Program! The May 2013 Hoyt Fellows program is coordinated by Greg MacKinnon and Michael Hudgins; the Weimer School program by John Clapp. Post-doctoral honorees present on Sunday.

Please register when your invitation to attend arrives. Contact Carol Reynolds at weimer@hoyt.org or (561) 694-7621, if you have not received your registration materials.

***** Hoyt Fellow and Weimer School registrants are encouraged to participate in all sessions *****

Thursday, May 16, 2013 - Hoyt Fellows Session

**** Breakfast buffet at 8:30 a.m.**** **** Session commences at 9:00 a.m.****

New Ways to Look at the World's Oldest Profession

Real estate researchers and investors have long been accustomed to thinking in terms of four major property sectors. However, new ways to think of the asset class have been developing, at both a more micro and a more macro level. New, more specialized property sectors have gained increasing interest. At the same time, real estate is starting to be classified within a more broadly defined Real Assets bucket. These changes are occurring concurrent with the development of even more sources of data on the real estate sector. Hoyt Fellows are invited to learn about and discuss the implications of these new approaches to the world's oldest business.

Session Descriptions:

New Real Estate Indices

Brad Case (NAREIT) – **PurePlay Indices**
Bob White (Real Capital Analytics) – **New Suite of RCA Indices**
Jeff Havsy (NCREIF) – **New Global Indices and NCREIF Open-end Indices**
Greg MacKinnon (PREA) – **PREA | IPD U.S. Property Fund Index**

The Four Major Property Sectors: Outlook and Sector Rotation Strategies

Luis Mejia (Co Star) – **Apartment**
Art Jones (CBRE Econometric Advisors) – **Office and Industrial**
Robert Gidel (Liberty Capital) – **Retail**

New Property Sectors

What is the outlook and how do you analyze these new sectors?

Michael Sklarz (Collateral Analytics) – **Single Family**
Beth Mace (AEW) – **Seniors Housing**
Andy Warren (Principal Global Investors) – **Student Housing**

Real Assets

Look Out! Real Estate is getting new stable mates.

Michael Hudgins (JP Morgan)
Clint Myers (Hines)
Catherine (Cate) Polleys (Hewitt EnnisKnupp)
Mark Roberts (Deutsche Asset & Wealth Management)

**** Hoyt Fellows LLC Business Meeting follows presentations ****

**** Reception - 5:00 p.m. - Hilton Hotel **** **** Hoyt Fellows Dinner - 6:30 p.m. (Hoyt Fellows only) ****

Friday, May 17, 2013 - Weimer School Session Begins

**** Breakfast buffet at 8:15 a.m.***   *** Session commences at 8:45 a.m.****

Retail Real Estate and Recovery from the 2008 Recession

Introductory Comments by Program Chair, Dr. John Clapp

Retail: Adapting to a Stressed Middle Class–Armed with Smart Phones

Panel Discussion:

Mr. Gary Ralston (CBC Saunders Ralston Dantzler Realty)
Mr. Da-Gon Chen (Cornerstone Real Estate Advisors LLP)
Dr. David R. Barker (University of Iowa)

Chain Affiliations, Store Prestige and Shopping Center Rents
Dr. François Des Rosiers (Université Laval)

**** LUNCH ****

When Wal-Mart comes to Town: Always Low Housing Prices? Always?
Dr. Jaren C. Pope (Brigham Young University)

Is What's Bad for the Goose (Tenant), Bad for the Gander? A Retail Perspective
Dr. Peng Liu (Cornell University)

**** Weimer School Faculty Meeting Follows Presentations ****

*** Reception at Hilton Hotel (All participants, spouses & guests) - 6:30 p.m***

*** Banquet Dinner at Hilton Hotel - 7:30 p.m. ***

Saturday, May 18, 2013 - Weimer School Session Continues

**** Breakfast buffet at 8:15 a.m.***   *** Session commences at 8:45 a.m.****

Retail Real Estate and Recovery from the 2008 Recession

Planning Policy, the Form of the Built Environment and the Carbon Footprint of the Retail Sector
Dr. Paul Cheshire (London School of Economics)

Locations of New Anchor Stores: Competition versus Internalization of Agglomeration Economies
Dr. Tingyu (Rhea) Zhou (University of Connecticut)

Measuring the Impact of Agglomeration on Chilean Supermarket Productivity
Dr. Anthony Pennington-Cross (Marquette University)

- Continued -

Saturday, May 18, 2013 - Weimer School Session *(Continued)*

Retail Real Estate and Recovery from the 2008 Recession

Empirical Entry Games with Complementarities: An Application to the Shopping Center Industry
Dr. Maria Ana Vitorino (University of Minnesota)

The Link Between Micro and Aggregate Productivity Growth: Evidence from Retail Trade
Dr. C. J. Krizan (Census Bureau)

Closing Comments
by Program Chair:
Dr. John Clapp (University of Connecticut)

**** Reception - 6:00 PM - Hilton Hotel *** *** Dinner on Own ****

Sunday, May 19, 2013 - Weimer School Session Concludes

**** Breakfast buffet at 8:30 a.m.*** *** Session commences at 9:00 a.m.****

Post Doctoral Honoree Presentations

Urban Transport Expansions, Employment Decentralization, and the Spatial Scope of Agglomeration Economies
Dr. Nathaniel Baum-Snow (Brown University)

Identifying the Effect of Securitization on Foreclosure and Modification Rates Using Early Payment Defaults
Dr. Kristopher S. Gerardi (Federal Reserve Bank of Atlanta)

Why Are Big Box Stores Moving Downtown?
Dr. Jenny Schuetz (University of Southern California)

**** Lunch at Hoyt Center *** *** Adjournment of Weimer School****

HOMER HOYT INSTITUTE
SUITE 300, THE HOYT CENTER
760 U.S. HIGHWAY ONE
NORTH PALM BEACH, FL 33408-4424

2013 EVENTS

APRIL

ARES 2013 Annual Meeting
April 10 - 13, 2013
Mauna Lani Bay Hotel and Bungalows Kohala Coast, Big Island of Hawaii.

MAY

May Hoyt Fellows/Weimer School Session
May 16 (Hoyt Fellows Mtg.)
May 17-19 (Weimer School)
Hoyt Center
North Palm Beach, FL

NAR Mid-Year Meeting
May 13 - 18, 2013
Washington, D.C.

AREUEA
2013 National Conference
May 30 - 31,2013
NAHB Headquarters
Washington, DC.

JUNE

2013 AsRES International Conference
June 28 - July 1, 2013
Kyoto University, Main Campus
Kyoto, Japan

AUGUST

ICSC Florida Conference
August 18 - 20, 2013
Gaylord Palms Resort & Convention Center
Kissimmee, FL

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