Vision Enhanced: A Supplement to an Article titled "The Information Revolution and Real Estate Analyses"

by Dr. Maury Seldin

Envision a PC-based decision support system for REIT investors. Eighty REITs with significant market caps invested in core properties are pre-analyzed for value, risk, and REIT strategy in order to enable the decision-making investor to design and/or implement investment strategies including applications of modern portfolio theory.
Envision a seamless integration of disparate data to provide information for an analytical schematic which applies both innovative and traditional real estate analyses to the REIT portfolios which contain 6,000 REIT properties in the database. And, envision that the rest of an institutional portfolio held on a direct investment basis may be seamlessly integrated so that a portfolio of direct and securitized (indirect) real estate investment may be constructed to meet an investor's strategy.

Envision that the information - data and information include both internal and external information selected to utilize a development planning approach, i.e., a portfolio building program in which additions and reductions of investment have been scheduled in expectation of external events which are forecasted and monitored, and REIT and real estate performance, internal and external, are monitored. The variables include, but are not limited to, forecasts of employment growth by SMA, net space additions by property type, absorption, vacancies (incidence and duration), rents, and tenancies. The results of forecasted events are synthesized into a series of indices which forecast and monitor IRAs. Deviation of performance from forecasted values are highlighted in amber or red and a reiterative forecasting system is imbedded in the system so that assumptions may be modified to reflect unanticipated events and adjustments to a planned portfolio are indicated by the system based upon predetermined criteria and such criteria adjustments as the executive decision-maker chooses to make.

Translated, this means that the ON buttons produce a screen with queries such as "do you want to search for REITs by value, risk, strategy?" "If strategy, which elements, aside from risk, are most important - property type, location, payout ratio, or growth mechanism?" Individual REITs may be selected by this and/or other criteria.

REIT information may be provided in three forms: (1) sixteen-page standard reports, (2) peer group analyses, and (3) customized formats. The customized formats are drawn from a truncated database.

The REIT analysis is drawn from the Hoyt Model. A summary for of the Hoyt Model is presented and three monographs are provided to summarize the relevant body of knowledge. There are The Real Estate in REITs, REIT Investment Analyses, and REIT Investment Strategy. All of this is in a drill down and menu format so that the user of the "REIT Desktop Analyst" may move about the system in a user-friendly way.
The analytical components for the mirror world structure are pre-selected from proprietary data vendors and public information sources. Where competitive vendors are

available, the decision maker may select from among the options. Additionally, where the analyst wishes, alternative assumptions or output numbers may be substituted.

The structure of the analyses may be to seamlessly integrate local real estate market forecasts for selected metro areas and to slice and dice market area forecasts by SMAs and submarkets to implement strategies ranging from pure plays on structural changes in economic growth to diversification strategies by property type and local economies.

Pre-existing non-REIT portfolios may be added to the system. The market a nalysis mirror world components may then be applied to the direct investments as well as the securitized investment.

The monitoring system from the bottom up perspective enables the executive to drill down to the property level, when these data are available, and monitor rents, vacancies, expenses, and other real estate specific activity of the portfolio. Also, to the extent that local market data are available by property type, the drill down can monitor that activity. But, most important, to the extent that any of the activities have been forecasted and the system is on-line for monitoring, deviations may be flashed to the executive.

This latest feature, coupled with a similar system for external metro area data is especially useful for the REIT executives. Within the constraints of public disclosure, such a system may be used as a marketing tool for developing investor relationships between the REITs seeking capital without heavy underwriting fees and the institutional investors, such as pension funds, who wish to place funds in real estate but operate in a financial paradigm.

Such a system would be a key competitive advantage for a real estate investment advisor who wanted to have superior reporting systems and present policy options to institutions while retaining the account as discretionary. The key is that the lay leadership of the pension funds need the information to understand the real estate investments, securitized or not, but want the separation from the individual property decisions as a protection in the capacity of a fiduciary. Such a format could present real estate portfolios in a financial paradigm.

The major difficulty of blending the two paradigms is that the risk measurement in finance is volatility based while in real estate the source, or type, of risk is of greatest concern. The real estate concepts of risk classification may be applied to non-real estate investments which would facilitate analyses of mixed asset portfolios.