



NEWS FROM **M_sASI & HF LLC**

Maury Seldin Advanced Studies Institute
Weimer School of Advanced Studies
in Real Estate and Land Economics

Hoyt Fellows LLC



VOLUME XXVIII, ISSUE II (FALL 2011)

May 13-15, 2011 Hoyt Fellows - Weimer School Sessions

The 69 attendees at the May 2011 Hoyt Fellows and Weimer School sessions experienced an exceptional program coordinated by Hans Nordby for the Hoyt Fellows and Jeff Fisher, Norman Miller, David Ling, Susan Wachter and Henry Pollakowski for the Weimer School. Fisher, Miller and Ling were responsible for the "Commercial Real Estate"



Weimer School Panel Presenters L-R: Norm Miller, Brad Case, David Geltner, Jeff Fisher, Michael Giliberto, Jim Valente and Xudong An

A panel discussion on "*Index Fest: A Smorgasbord of Commercial Real Estate Rent, Price and Total Return Indices*," chaired by Geltner, followed. Panelists included **Xudong An** (San Diego State University), **Brad Case**, **Jeff Fisher** (Indiana University & NCREIF), **Michael Giliberto**, **Norm Miller** (University of San Diego), and **Jim Valente** (IPD North America). **Mike Miles** (Guggenheim Real

discussions, and Wachter and Pollakowski for the "Housing: Location, Dynamics and Finance" presentations. Three Post-Doctoral scholars discussed their research on Sunday morning. The Hoyt Fellows session on Thursday blended seamlessly with the Friday morning session of the Weimer School, fostering interaction among Hoyt and Weimer School Fellows.

Topics and presenters at the Thursday Hoyt Fellows session were "*Frozen Assets and Zombie Buildings - When Do They Return from the Dead?*" discussed by **Tyler Wiggers** (Federal Reserve Bank of New York), **Carl Tash** (Starwood Capital Group), **Andy Warren** (Principal Global Investors), **Hans Nordby** (Property and Portfolio Research), and **Anatole Pevnev** (Ten Capital Management); "*EuroImplosion - How Likely, How Bad?*" by **Greg MacKinnon** (PREA) and **Michael C. Hudgins** (JP Morgan Asset Management); "*Risk Curves - Where Do You Want to Be?*," **Brad Case** (NAREIT); and "*The Cycle - What Time Is It?*," **Glenn Mueller** (University of Denver).

The Weimer School convened Friday with the morning devoted to "*Commercial Real Estate*." Presenting were **Michael Giliberto** (S. Michael Giliberto & Co., Inc. and Columbia University), "*Fear and Loathing in....[pretty much everywhere]: Things We Should Remember [but probably won't] from the Financial Crisis*" and **David Geltner** (MIT), "*Commercial Property Transaction Price Indices: Some Perspective After the First Five Years*."

Estate, LLC) talked about "*Lessons Learned from the Dark Side*."
- Continued on page 2

Maury Seldin Advanced Studies Institute
*Developing and Disseminating the Body
of Knowledge in Real Estate*



Hoyt Fellows LLC
*Bridging Industry and Academia
with the Advanced Studies Institute*

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L-R: Norm Miller, Xudong An, Hal Smith (back) and Jim Valente



Weimer School in session, Kyung-Hwan Kim presenting. (Co-chairs Susan Wachter, lower left and Henry Pollakowski, lower right.)

The session on "Housing - Location, Dynamics, Financial" began Friday afternoon and continued through Saturday. Speakers and topics were **James Follain** (James R. Follain LLC and Rockefeller Institute of Government at the University of Albany), "*Detecting Housing Price Bubbles*;" and **Paul S. Calem** (Board of Governors of the Federal Reserve System), "*Subprime Mortgages and the Housing Bubble*."

The Housing session continued on Saturday morning with **Ingrid Gould Ellen** (New York University) "*Do Foreclosures Cause Crime?*" followed by **Stephen L. Ross** (University of Connecticut) "*Housing Price Appreciation and Mortgage Underwriting*." After breaking for lunch, the session resumed with **Kyung-Hwan Kim** (Sogang University) "*Mortgage Finance and Housing Outcomes in Korea*;" **Thomas Davidoff** (University of British Columbia) "*Interest Accumulation in Home Equity Loans to Retirees*;" and **John M. Clapp** (University of Connecticut) "*Real Option Value and the Dynamics of Housing Prices*." The session concluded with closing comments by chairs **Henry Pollakowski** (Harvard University) and **Susan Wachter** (University of Pennsylvania).

Sunday morning was devoted to presentations by the Weimer School Post-Doctoral Scholars. Each year, a number of younger researchers are invited to discuss their research with the Weimer School Fellows and Hoyt Fellows. These individuals are recognized for both their recent contributions and for expectation of continued productivity. The 2011 Post-Doctoral Scholars were **Kelvin (S.K.) Wong**, (Hong Kong University), "*Can 'Lemons' Explain Housing Market Liquidity?*," **Zhenguo Len Lin** (Mississippi State University) "*Real Estate Risk Premium Puzzle*;" and **Stephanie Rauterkus** (University of Alabama), "*Residential Land Values and Walkability*."

Summaries of Hoyt and Weimer School presentations provided by the participants can be found on pages 7-9 of this newsletter.



2011 Post Docs, L-R: Kelvin (S.K.) Wong, Stephanie Rauterkus and Zhenguo Len Lin

Editorial Correction - Spring 2011

MSASI - HF LLC Newsletter

Our sincere apologies to **Dr. Steven Bourassa** (University of Louisville) and **Dr. Colin Lizieri** (University of Cambridge) who were inadvertently omitted from the Spring Newsletter listing of first-year Weimer School Fellow candidates.

2011 Hoyt Fellows



Michael Hudgins

Mr. Michael C. Hudgins, Vice President, is the Global REIT strategist on the U.S. Equity Team as well as a member of the research group for the Global Real Assets Group. An employee since 2007, Michael is responsible for providing market insight to the NYC REIT portfolio management team, serving as the external spokesman for the U.S., International and Global REIT strategies, and generating research related to the real estate asset class. In the industry since 1993, Michael has extensive real estate experience and was previously a research analyst covering the office REIT sector at Stifel Nicolaus. Prior to that, he was a research strategist at Property & Portfolio Research providing research on all four quadrants of the real estate asset class to his clients. He also worked at Bovis Lend Lease as vice president of Strategic Planning. Michael holds a B.A. from Williams College and a Master's degree in real estate from Johns Hopkins University. He was the recipient of the Mueller Award for his thesis "*Characterizing the Performance, Behavior and Role of the JREIT Market.*" Michael is involved with the National Association of Real Estate Investment Trusts (NAREIT), the leading REITs industry group, and a member of their Real Estate Investment Advisory Council (REAIC). He also holds FINRA Series 7 and 63 licenses.



Andrew Warren

Mr. Andrew C. (Andy) Warren is a managing director of research for Principal Real Estate Investors. He is responsible for providing economic, real estate and capital markets research for the firm's clients and portfolios, and is also active in investment strategy, transaction support and client service. Andy joined the firm in 1988. He received an MS in urban economics from the University of Iowa and a bachelor's degree in finance from the University of Nebraska. Andy has earned the right to use the Chartered Financial Analyst designation. In 2004, Andy was approved for membership in the Counselors of Real Estate. He is a member of the CFA Institute, the Appraisal Institute, the Urban Land Institute, the American Real Estate Society and the International Council of Shopping Centers. Andy is also a participating member of NCREIF and NAREIM.



Tyler Wiggers

Mr. Tyler Wiggers currently works for the Federal Reserve Bank of New York in the Markets Group and focuses on the commercial real estate and CMBS markets. He spent his first year developing and executing the Federal Reserve's TALF program to revive the CMBS market which resulted in the first US non-agency CMBS deal since the summer of 2008. Currently, he monitors the commercial real estate market with a focus on distressed CRE assets in the banking system, and makes policy proposals to the principals in New York and the Board of Governors; and he sits on special working groups focused on best practices for the structured finance market. He also is currently researching defaults and losses on proto-CMBS securities issued during the 1920s and 1930s.

Before the Federal Reserve, Tyler worked at Broadway Partners as the head of debt capital markets and was responsible for sourcing acquisitions, refinancing debt, and helping with property disposition strategies. He also was an Associate Director with Barclays Capital Real Estate Group where he underwrote senior and mezzanine real estate loans across US and Mexico, and worked for Moodys helping to rate Commercial Mortgage Backed Securities and Real Estate CDOs, and for Arthur Andersen's Real Estate Capital Markets group, and JP Morgan commercial lending division. Tyler holds a B.S. from Miami University and an M.B.A. from the University of Chicago Graduate School of Business.



Sotiris Tsolacos

Dr. Sotiris Tsolacos is Director of European Research at Property & Portfolio Research, a CoStar group company. He works closely with investment managers, lenders, and developers to assess risk and opportunities across Europe. Dr. Tsolacos has carried out extensive research and advisory work on forecasting real estate markets and market mispricing. He is a frequent commentator on current real estate issues and he has published extensively in academic journals and industry magazines. A member of the International Institute of Forecasters and a past president of the European Real Estate Society, Dr. Tsolacos is also a Fellow of the Euro Area Business Cycle Network. He is the co-author of the book *Real Estate Modeling and Forecasting*.

"2011 Hoyt Fellows" - Continued on page 4



Greg MacKinnon

Dr. Gregory H. (Greg) MacKinnon is the Director of Research for the Pension Real Estate Association (PREA). Prior to that, he spent many years at St. Mary's University (Halifax, Nova Scotia), Concordia University, and the University of Auckland, as a professor teaching university courses on finance and capital markets topics and has won a variety of awards for both his teaching and his research on real estate investment issues. Greg holds a Ph.D. in Finance (University of Alberta) and is a CFA charterholder.



Doug Prickett

Mr. Joe Douglas (Doug) Prickett is Vice President and Director of Archon Group, L.P. (Subsidiary of Goldman Sachs) providing research services for a \$5+ billion real estate and loan portfolio which entails strategic research, analytical research, and information services, all serving the investment goals of the firm. Prior to joining Archon in 1997, he served as Director of Real Estate serving as in-house corporate real estate advisor for a publicly held vertically integrated citrus and tropical fruit growing, processing and distribution company with real estate holdings in USA, Mexico and Canada. In this role, he provided complete facility management and assessment and analysis of existing and proposed facilities. From 1983 to 1994, Doug provided various consulting services including market, property and site analysis, valuation, appraisal review, and appraisal compliance and management.

A New Weimer School Faculty Member

Dr. Raphael Bostic



Dr. Raphael Bostic

Dr. Raphael Bostic will be joining the Weimer School faculty in 2012. Raphael received his Ph.D. in Economics from Stanford University and is currently serving as Assistant Secretary for Policy Development and Research at the US Department of Housing and Urban Development and is a key adviser to the Secretary on overall Departmental policy, program evaluations and research. Prior to his appointment at HUD, Raphael served as a professor at the University of Southern California and was at the Federal Reserve Board of Governors. More information on Raphael's research and career can be found at http://portal.hud.gov/hudportal/HUD?src=/about/principal_staff/assistant_secretary_bostic.

The faculty was unanimous in their praise and selection of Raphael and are delighted that he accepted. The Weimer School faculty nominates faculty members, who are then ratified by the M_SASI Board.

A Kind Word from Hoyt Fellow, Steve Felix

..."I'm writing to you from North Palm Beach, Florida where yesterday I attended the annual meeting of the Hoyt Fellows. Today the program of the Weimer School of Advanced Studies in Real Estate and Land Economics continues. Hoyt Fellows includes some of the brightest minds in the commercial/institutional real estate world. Its membership is mostly academics but they've allowed a few guys like me to infiltrate their ranks. There's a great team at the Hoyt Institute **Maury Seldin, Hal Smith, Ron Donohue, Ron Racster, Bobbi Bernardini** and **Carol Reynolds**. When looking at the roster, I guess I didn't realize how many of these folks are Ph.D.'s. It's an impressive group and I am humbled in their presence. They are deep thinkers about commercial real estate and the dialogue at these meetings is open and refreshing."

*Excerpted from "On the Road with Steve Felix"
Posted May 15, 2011*

Thank you, Steve!

Homer Hoyt Research Initiative Planning Session

Clemson University, Greenville, SC

July 2011

On Friday, July 22, interested researchers convened for a planning session focused on one of HHI's recent research initiatives "Developing Data and Analytics to Monitor and Identify Emerging Imbalances in the Housing Finance Market." Attendees included Jeff Fisher (Session Chair), Maury Seldin, Ron Donohue, Norm Miller (by phone), Grant Thrall, Jim Follain, Stephanie Rauterkus, David Wyman, Bear Cheezem (an intern from Clemson) and Elaine Worzala.

The meeting began with the introduction of a one page overview of the research initiative crafted by Jeff Fisher and amended with a set of end notes by Maury Seldin (see *Supplement to Fall 2011 M_SASI – HF LLC Newsletter*). The group then focused on planning HHI's role in organizing two sessions at the 2012 ARES meetings (April 15-21). The morning session will include a "keynote" speaker who is well-versed in complexity economics and modeling complex adaptive systems. Some of our colleagues in finance, such as Andrew Lo of MIT, have been working in this area over the last decade and we hope to engage them in our efforts to understand how these concepts can be applied to real estate. Following an overview and critique of doing research in the usual way, a panel of seasoned real estate researchers will respond. The afternoon session will feature papers focused on the tools and/or data that can help researchers better understand and incorporate new approaches in the analysis of real estate markets. If anyone is interested in participating in either or both of these sessions, please contact Jeff Fisher (fisher@indiana.edu). You are also encouraged to attend these cutting edge sessions at the ARES St. Petersburg conference and to encourage your colleagues to do the same.

There was also discussion on two special issues that will be published by Emerald in late 2012, one in the *Journal of Property Investment and Finance* that will include work that is focused on the commercial area and the other in the *International Journal of Housing Markets and Analysis* focused on residential markets. The special issues are being edited by Dr. Stephanie Rauterkus (srauter@uab.edu). The plan is to actively solicit papers from AREUEA, ARES and the Weimer School. Please consider submitting to these special issues.

In the next few months, Stephanie Rauterkus and Jim Follain will be working on a literature review that will be posted on the Hoyt Wiki site. Once the literature review is available and the ARES sessions are held, a research framework for this initiative will unfold as we work towards HHI's goal of being the leader in discipline development for the real estate profession.

Further discussions centered on the blending of computer and behavioral science, micro-geographic modeling, agent based modeling, and complex adaptive systems. Research would focus on the limits of the market, forecasting short term moves in the real estate market, the integration of agent based modeling and GIS, and the optimal "geographic container" when forming databases and conducting real estate research. The planning session closed in the early afternoon and it was agreed that more discussions would take place at the Homer Hoyt Institute board meeting in November.

Webinars

Industry and Academic Collaboratives

CBRE and the University of San Diego's Burnham Center for Real Estate have launched a **sustainability** Webinar series offered under the auspices of a newly created Center for Sustainable Real Estate. The next webinar, moderated by **Dr. Norm Miller** (*University of San Diego*), and **Dave Pogue** (*Director of Sustainability, CBRE*), continues on **Thursday, September 8th at 9 am Pacific, noon EST** with three speakers set for 90 minutes on the latest "what's next?" topics. The three speakers are from **the Institute for Market Transformation** covering the topic of regulation trends, **the Rocky Mountain Institute** covering a futuristic view of progress on net zero buildings, and the **DOE and Commercial Real Estate Energy Alliance** on the topic of leading edge technologies. If you wish to sign up or suggest your students or colleagues attend this **FREE** program, please let Diane know at dgustafson@sandiego.edu.

CRE and the University of Connecticut Center for Real Estate and Urban Economic Studies are sponsoring a 2011 real estate webinar series. First in this series is: **Repositioning Distressed Shopping Centers**, being held on **Thursday, September 15, 2011 at 12:00 PM - 1:00 PM**. The moderators are **R. Michael Goman** (*Goman + York Property Advisors*) and **George Watson, III, Esq.** (*Robinson & Cole LLP*). Panelists are: **Dags Chen** (*Cornerstone Real Estate Advisors*) and **Vasilios K. Diakogeorgiou** (*GE Capital Real Estate*) **Registration: FREE**. Please follow this link to register for the webinar <https://www1.gotomeeting.com/register/134309265>

The second in this series is: **The End of Pretend and Extend for Commercial Real Estate Loans?** being held **Thursday, October 20, 2011 12:00 PM - 1:00 PM**. The moderators are **John M. Clapp** (*University of Connecticut*) and **Lauren M. Vinokur, Esq.** (*Robinson & Cole LLP*). Panelists are: **Suzanne E. Mulvee** (*PPR, Boston*) and **Martin J. Geitz** (*Simsbury Bank*) **Registration: FREE**. Please follow this link to register for the webinar <https://www1.gotomeeting.com/register/692242960>.

Preview of the January 12-15, 2012 Weimer School

★ Please register as soon as possible. Rooms at the Hilton Singer ★
★ Island are always limited in "season." ★

The 2011-12 Weimer School Fellow candidates returning to complete their requirements for Fellow status will discuss their research on Friday and Saturday morning. Returning candidates are: **Dr. Steven C. Bourassa** (University of Louisville), "*Robust Repeat Sales Indexes*;" **Dr. Gary Engelhardt** (Syracuse University), "*Housing and Aging*;" **Dr. Robert W. Helsley** (University of California, Berkeley), "*Social Networks and Interactions in Cities*;" **Dr. Colin Lizieri** (University of Cambridge), "*Regional and Urban Economic Patterns and Commercial Real Estate Investment Activity in the UK: Is There a Mismatch?*;" **Dr. Henry G. Overman** (The London School of Economics), "*The Impact of Subsidizing Commercial Space in Deprived Neighbourhoods*;" and **Dr. Gary D. Painter** (University of Southern California), "*Caught In The Housing Bubble: Immigrants' Housing Outcomes In Traditional Gateways And Newly Emerging Destinations*."

The returning 2011 candidates will be joined by candidates from the 2010 class who deferred completion until 2012. They are **Dr. Stephen L. Ross**, (University of Connecticut) "*The Impact of Subprime*

Lending: Evidence from Longitudinal Credit History Data" and **Dr. John D. Landis**, (University of Pennsylvania) "*The Determinants of Metropolitan Land Use Change*."

The incoming 2012-13 Fellow candidates will present their proposed research on Saturday and Sunday morning. The 2012-13 candidates are: **Dr. Robert Avery** (Board of Governors of the Federal Reserve System) <http://www.federalreserve.gov/research/staff/averyrobertb.htm>; **Dr. Patrick Bayer** (Duke University) <http://econ.duke.edu/people/bayer>; **Dr. Anthony Pennington-Cross** (Marquette University) <http://business.marquette.edu/faculty/directory/anthony-pennington-cross>, **Dr. Gilles Duranton** (University of Toronto), <http://individual.utoronto.ca/gilles/default.html>; and **Dr. Yuming Fu** (National University of Singapore), <http://courses.nus.edu.sg/course/rstfuym>.

The 2012 Halbert C. Smith Honorary Fellow is **Mr. William Poorvu** (Harvard University) <http://drfd.hbs.edu/fit/public/facultyInfo.do?facInfo=ovr&facId=6531>.

2012 Halbert C. Smith Honorary Fellow

Professor William Poorvu

Harvard University



Mr. William Poorvu

William Poorvu (B.A., 1956, Yale; MBA, 1958, Harvard Business School) is the class of 1961 Adjunct Professor in Entrepreneurship, Emeritus at Harvard Business School. He taught and was responsible for the real estate courses at Harvard for 35 years and was the school's first adjunct professor, its first adjunct professor with a named chair and the first non-tenured professor at Harvard University to be given Emeritus status. He also was on the faculty of the Graduate School of Design for many years. He is the author of several books on real estate, the two most recent being *Creating and Growing Real Estate Wealth: The 4 Stages to a Lifetime of Success*, 2008 and *The Real Estate Game - The Intelligent Guide to Decision-Making and Investment*, 1999. He is well-known in academia for his casebooks for teaching real estate.

Mr. Poorvu was the co-founder, Vice Chair and Treasurer of Boston Broadcasters, Inc. (1963-1982), co-founder and Chair of The Baupost Group LLC, an investment firm where he currently is Co-Chair of its Board of Advisors. For 22 years he was an independent Trustee of the MFS Group of Mutual Funds. He has also served on the board of a number of public real estate investment trusts over the years.

He is a Life Trustee and former Vice Chair and Treasurer of the Boston Symphony Orchestra, a Trustee and Treasurer of the Gardner Museum, Vice Chair of the National Public Radio Foundation, a member of the Carnegie Corporation Investment Committee and a former member of the Yale University Investment Committee and Yale University Council. He has served on various government commissions including the State Department's Overseas Presence Advisory Panel.

Summaries of Presentations 2011 Weimer School and Hoyt Fellows Sessions

A Look at US House Price Bubbles from 1980-2010 and the Role of Local Market Conditions

(Working Paper)

James R. Follain
(James R. Follain LLC and Rockefeller
Institute of Government at the University
of Albany)
and Seth H. Giertz (University of
Nebraska)

We investigate the relationship between housing prices and several explanatory variables for a large panel of U.S. MSAs in order to gain insight into the ex ante likelihood that price bubbles are present. We estimate a vector error correction (VEC) model for a number of different time periods and subsets of MSAs. Estimated coefficients from these models are inputted into a Monte Carlo simulation model in order to project future house prices, as well as the distribution of potential house-price paths. Special attention is paid to both the median projection and the severity of extreme or stressful outcomes. These projected house price (and employment) distributions are generated for each MSA, which allows us to test the role of local market conditions in the formation of price bubbles. The model's predictions are then compared to actual outcomes – focusing primarily on the house price bubble and bust of the Great Recession.

We find that the estimates of the coefficients of the lagged covariates in the three equation VEC model are very similar for various MSA groupings and time periods. Despite this first finding, our simulation model projects great variation in house price appreciation across MSAs for each time period for each MSA grouping. The variation in projected house price appreciation appears to be driven by differences in (initial) local market conditions, which include the three year histories of the growth rates in real house prices, employment, real income per capita, and a variety of fixed effects. This conclusion is particularly true for estimates of extreme events, which also vary dramatically among these local housing markets. Our projections (at the median) for 2008 to 2010, when using data through 2007, prove to be highly

correlated with the actual house price changes. However, the magnitudes of the actual house price declines substantially exceed the predictions, especially among those MSAs in which house price declines in 2008-2010 were especially severe. More broadly, our analysis underscores the complexity of forecasting bubbles. It especially highlights the difficulties of doing so in the framework built upon the notion of a national housing market and relatively simplistic equilibrium conditions. Even in recent years, housing markets are heavily influenced by local supply and demand conditions. A link to the complete paper can be found at http://www.lincolinst.edu/pubs/1928_A-Look-at-US-House-Price-Bubbles-from-1980-2010-and-the-Role-of-Local-Market-Conditions

Real Option Value and the Dynamics of House Prices

John M. Clapp
(University of Connecticut),
Piet Eichholtz and Thies Lindenthal
(Maastricht University, The Netherlands)

Professor Clapp discussed ways in which the dynamics of house prices are affected by the option to rebuild or enlarge existing dwellings. His research with Piet Eichholtz and Thies Lindenthal shows how neighborhoods and houses with unrealized renovation potential can be identified.

The authors use an unexplored dataset of housing transactions in West Berlin, covering the thirty years between 1978 and 2007. The empirical results show that house value has an elasticity of about 0.15 with respect to development potential, measured by the ratio between the square meters allowed by zoning and the existing house size. For high development potential properties this elasticity increases to 0.23.

The evidence presented here suggests that Berlin's "Big Bang" boom period between 1989 and 1994 was associated with a significant increase in option value for the properties with substantial redevelopment potential; about 40 percent of the price growth in these dwellings was related to increased option value. In the post-1994 bust about 50 percent of their price decline was associated with decreased option

value. Volatility of this magnitude applies to about 10 percent of all properties sold during the sample period, but for dwellings with low redevelopment potential, the effect is still economically significant: 12 percent of the decline in real value of these homes can be attributed to changing real option value. More than 68 percent of all sales have increased volatility over the cycle associated with option value. A link to this paper can be found at http://users.business.uconn.edu/jclapp/Berlin_Final_March2011.docx.

Interest Rates and Non-Fundamental Fluctuations in Home Values

Albert Saiz
(University of Pennsylvania)

Fluctuations in housing prices are relevant to wealth accumulation, labor mobility, consumption, macroeconomic volatility, and financial market stability. However, it is ex ante difficult to know when housing price movements are due to fundamentals, such as changes in the user cost of capital, versus "irrational exuberance." I propose combining the canonical urban economics Alonso-Muth-Mills model and Poterba (1984, 1990) housing asset-pricing equation to form grounded theoretical expectations about the impact of changes in the user cost of capital on home values. I show rental prices and rental expenditures to be endogenous to interest rates, which limits the applicability of conventional price-to-rent ratios. Expected changes in home values can be expressed as simple functions of the supply elasticity of housing, and the initial share of land relative to prices in a city. The simple formula can be used to diagnose and underwrite home valuations under the null hypothesis of a common shock to the user cost of capital. Empirically, I find that housing supply elasticities and land shares as of 1990 predicted 50% of the variance in price growth during the past boom. Deviations from theoretical growth mean-reverted dramatically during the bust period.

"Summaries" - Continued on page 8

Do Foreclosures Cause Crime?

Ingrid Gould Ellen
(New York University)
with Johanna Lacoë (New York University) and Claudia Ayanna Sharygin
(New York University)

The mortgage foreclosure crisis has generated increasing concerns about the effects of foreclosed properties on their surrounding neighborhoods, and on criminal activity in particular. Using longitudinal, point-specific, crime, foreclosure, and other property data from New York City, we study whether foreclosed properties affect criminal activity on the blockfaces on which they occur. (We define a blockface as an individual street segment that includes properties on both sides of the street.)

We look separately at how foreclosures affect different types of crime, examine whether foreclosures that result in long-term bank owned status have larger impacts than foreclosures that are resolved by a sale to a new owner, and compare the marginal effect of additional foreclosures across neighborhoods with differing concentrations of criminal and foreclosure activity. We find that additional foreclosures on a blockface lead to additional violent crimes and public order crimes. These effects are largest when foreclosure activity is measured by the number of bank-owned properties on a blockface. We find that effects are largest in neighborhoods with lower levels of crime, and effects appear to be heightened when foreclosure activity is concentrated.

Does Property Size Play a Role in a Portfolio?

Gregory H. MacKinnon
(Pension Real Estate Association)
(part of "Does Size Matter? Extra Large Assets, Why Investors Love Them and Whether They Outperform" session with Michael C. Hudgins)

Greg MacKinnon presented the results of a recently released PREA Research Report on the role of property size. Looking at each of the four main property types separately, properties were broken down into small, medium and large categories based upon their value. For all property types, the

correlations across different size categories were very high, indicating few benefits to diversifying a portfolio across different size categories. In terms of investment performance, results differed by property type. Large properties have underperformed small in the apartment space, and to a lesser degree in industrial. Within retail, medium size properties have been the worst performers, with small having shown the best performance. Conversely, office shows no significant difference in performance by size of property. Finally, a closer look at the office sector revealed that large office properties tend to have higher betas (are more exposed to the cycle) than smaller properties, something that is even more pronounced for the very largest properties in major markets. However, large office tends to have higher annual cash flow, despite showing lower NOI returns, due to economies of scale in capital expenditures.

Mortgage Finance and Housing Outcomes in Korea

Kyung-Hwan Kim
(Sogang University)

Over the past two decades, housing stock doubled in Korea but the housing supply system remains heavily regulated and inelastic. The expansion of mortgage supply and the low interest rate following the liberalization of mortgage market around 2000 led to a surge in housing prices, most markedly in a smaller number of submarkets in Seoul and its suburbs sought after by many high income households but where supply was limited.

The Korean housing sector suffered much less from the Global Financial Crisis (GFC) than U.S. and Europe, and in comparison with the Asian Financial Crisis (AFC) of 1997. The behavior of housing price and quantity variables following the two crises is illustrated with data and some explanations for the differences between them are suggested.

Going forward, Korea faces several challenges including: Minimizing the potential risk to the financial system associated with the structural weaknesses of the mortgage market dominated by short-term adjustable rate bullet mortgages, Managing the transition from the unique Chonsei to a monthly rental contracts in the rental

market, and addressing changing demand for housing for rapidly aging population and unlocking household wealth heavily concentrated in housing.

The Cycle - What Time Is It?

Glenn Mueller
(University of Denver)

Dr. Glen Mueller gave an update on his real estate market cycle research. The physical market cycle in most major cities showed that the 5 major property types saw their bottoms in occupancy in 2010 and improvements were happening in most markets. Rental rates were still falling which is typical for the first part of the cycle recovery, but many markets are expected to see rental growth in the second half of 2011. On the financial cycle, prices historically do not recover until the physical cycle is part way through recovery. In this cycle prices have recovered, but only in the top 6 core institutional markets and mainly for class A core properties. Distressed properties are abundant and bringing down the national average price level. The key to a continued recovery is employment growth which has been slow. The cycle report is available at <http://www.dividendcapital.com>.

Real Estate Risk Premium Puzzle

Zhenguo (Len) Lin
(Mississippi State University)

Thinly-traded real estate assets do not fit into the traditional finance paradigm of a liquid and well-functioning market where trading is continuous and instantaneous. Since real estate assets cannot be bought and sold easily, they bear liquidity risk. Classical finance theories cannot properly gauge the performance of illiquid assets such as real estate because they implicitly assume such illiquidity is trivial. This paper proposes an alternative performance measure for the real estate asset, which explicitly captures both liquidity risk and non-independently and identically distributed nature of real estate returns in a formal investment analysis. Applying the new performance metric, we are able to solve the decades-old "real estate risk premium puzzle."

"Summaries" - Continued on page 9

Frozen Assets and Zombie Buildings – When Do They Return from the Dead?

Andrew C. Warren
(Principal Global Investors)

Not all frozen assets look the same. We all think of distressed assets when we hear the term "zombie" building, but this term can also describe properties with strong sponsorship where the economics of the property or financial structure make it infeasible to continue to invest capital into either further improvements or even operating expenses.

Two multifamily assets purchased in 2007 fit the latter definition of a zombie building. These properties were in a momentum market where demand growth had been accelerating and the underlying economics had historically performed well even during national recessions. The business plan was to renovate the units to a higher quality thus leading to higher income levels.

The national recession hit this market particularly hard with the ultimate result that the value of the properties quickly fell below the current level of CMBS debt. At this point, the institutional owner was forced to make a fiduciary decision and stop all renovations. The issue was resolved when the local joint partner assumed full ownership of the properties avoiding sending them into default and likely leading to deterioration of the asset.

Residential Land Values and Walkability

Stephanie Rauterkus
(University of Alabama - Birmingham)
*(with Norman G. Miller -
University of San Diego)*

We examine 5,603 property transactions in Jefferson County, Alabama that take place between 2004 and 2008. Using OLS regressions, we estimate the extent to which differences in walkability can explain the variability in land values. We find that after controlling for population growth and lot size, land values generally increase with walkability and that this result is stable over time. However, we find evidence that this impact weakens as neighborhoods become more car-dependent. This car

dependency increases as the distance from the Central Business District increases. We consider the implications of our findings on mixed use developments in what we believe is the first study to address walkability in this context.

Risk Curves: Do We Even Know Where the Curve Is?

Gregory H. MacKinnon
(Pension Real Estate Association)

As part of the session on "risk curves," Greg MacKinnon began his presentation by noting that knowing where one wants to position oneself on the curve, or the efficient set as it is often called, depends on knowing what the curve actually looks like. Greg's comments were based on the idea that real estate investors may have a less than perfect idea of what the optimal portfolios actually are. The discussion centered around two issues. First, increased integration with capital markets may have changed the nature of real estate risk. Due to this increased integration with broader markets, real estate appears to have become more volatile over time, and geographic diversification strategies may not work as well in the future as they did in the past. The second issue discussed was investment horizon. Risk can look much different over a long horizon than that seen based on short term returns. Greg presented results from prior research that indicated, because of strong mean reversion in equity returns, that for investment horizons of ten years or more real estate actually appears to have about the same volatility as equities.

Does Size Matter? Extra Large Assets, Why Investors Love Them and Whether They Outperform

Michael C. Hudgins
(JP Morgan Asset Management)

The large assets presentation from JPMorgan covered a paper that investigates if large properties have outperformed the institutional property market over time. This topic is relevant for real estate investors and portfolio managers considering property size as a way to differentiate portfolio performance. The body of academic literature on large asset performance is inconclusive due to issues in applied methodologies and definitions. It was noted that the study

presented uses a new methodology correcting for property type, stale appraisals and furthermore restricts large to the relatively selective and well-defined group that would strike a knowledgeable, institutional investor as truly large. The study also looks at performance of large assets across major and non-major markets. Key findings are that large assets, as most reasonably defined, have historically outperformed other properties in the NCREIF database on an absolute and risk-adjusted basis. This finding applies to all three sectors we tested; Office, Multifamily and Retail. Property size remains an important factor after correcting for large asset overrepresentation in six major markets.

Subprime Mortgages and the Housing Bubble

Paul Calem
(Board of Governors
of the Federal Reserve System)
*(co-authored with Jan Brueckner and
Leonard Nakamura)*

This paper develops a theoretical model in which subprime lending is both a consequence and a cause of accelerating house price appreciation. In the model, a favorable shift in lender expectations regarding future prices spurs subprime lending by easing default concerns. The resulting increase in the demand for housing feeds back into the market, driving up today's housing prices.

The paper then offers an empirical test of the link between price expectations and subprime lending, using a panel database of borrower risk scores, aggregated up to the state level, over 2001-2008. Panel regression models are estimated, where the dependent variable is state-level mean risk-score for new mortgage borrowers or, alternatively, the 10th or 25th percentile of the state's risk-score distribution. The key explanatory variable, intended to capture price expectations, is the lagged annual rate of state house-price appreciation. While the regression is meant to test for the causal path from price expectations to subprime lending, the reverse path is a potential source of simultaneity bias; some approaches are explored to address this bias. The empirical results provide support for the main hypothesis by suggesting a causal link between prior price appreciation and subprime lending at the state level.

COLLEAGUES IN THE NEWS

Xudong An (2010 Post Doctoral Honoree) has been promoted to an associate professor of finance with tenure at San Diego State University, Department of Finance. He holds an endowed professorship in real estate.

Dennis Capozza (1991 Weimer School Fellow (WSF) and Weimer School Faculty Member) was recipient of the David Ricardo Medal from ARES this year for influential writings in real estate.

Yongheng Deng (2005 WSF, 2002 Post Doctoral Honoree and 1996 Dissertation Award Winner) has been appointed Chairman of the World Economic Forum's Global Agenda Council for Real Estate. The World Economic Forum is a not-for-profit organization based in Geneva, Switzerland best known for its Annual Meeting in Davos, Switzerland. In addition to the meeting in Davos, the Forum also holds a series of regional summits, is deeply involved with various initiatives, and works to create dialogue on industry issues. Yongheng has been invited to speak at the upcoming World Economic Forum "Summer Davos" meeting in China, Sept 2011, on issues relating to urbanization and real estate development.

Don Epley (1993 WSF) The Mitchell College of Business Center for Real Estate Studies at the University of South Alabama, where Don is Professor of Real Estate and Director, recently received federal funds to support economic impact analysis on major regional developments. Don is the Principal Investigator at the Center that is working with the Gulf Coast Oil Spill Consortium to estimate the impact of the oil spill on property values.

Jim Follain (1991 WSF and WS Faculty Member) coauthored two articles with Seth Giertz (University of Nebraska - Lincoln) that were recently published. One is entitled "*Using Monte Carlo Simulations to Establish a New House Price Stress Test*," published in the *Journal of Housing Economics*. The other is a working paper entitled "*A Look at U.S. House Price Bubbles from 1980-2010 and the Role of Local Market Conditions*," and was published by the Lincoln Institute of Land Policy. Both deal with the challenges of developing and estimating stress tests or notions of extreme house price declines. The articles and brief abstracts can be accessed at: <http://www.rockinst.org/>

John Glascock (1995 WSF and 1989 Post Doctoral Honoree) has moved to the University of Connecticut as Full Professor and Center Director—he will take up his new role in September 2011. John is the 2011 keynote speaker at this year's European Public Real Estate Association (EPRA) Conference on September 1, 2011 in London.

Bill LaFayette (1995 Dissertation Award Winner) has started a consulting business after serving as vice president of economic analysis at the Columbus (Ohio) Chamber for the past 12 years. *Regionomics* focuses on regional economic analysis, economic development strategy, workforce development strategy and analysis, industry

analysis, and economic impact. Bill may be reached at bill.lafayette@att.net or (614) 783-2492.

Geoff Meen (2006 WSF) has been appointed Head of the School of Politics, Economics and International Relations at Reading University until 2015.

François Ortalo-Magné (2009 WSF) has been named Dean of the Wisconsin School of Business at the University of Wisconsin-Madison. François has been chairman of the Real Estate and Urban Land Economics Department of the Wisconsin School of Business since 2008. He initiated and directs the Global Real Estate Master, a new M.S. degree offered in cooperation with two top business schools on three continents: Hong Kong University of Science and Technology, INCAE Costa Rica and HEC Paris.

Gary Dean Painter (2005 Post Doctoral Honoree) was promoted to professor at the University of Southern California School of Policy, Planning and Development, where he is also currently Director, Graduate Programs in Public Policy and Director of Research, Lusk Center for Real Estate. This year, Gary was elected to be 2nd Vice President of AREUEA.

Lynn Sagalyn (1994 WSF, WS Faculty Emeritus) has co-authored several articles in 2011 that have been recently published. They include "*The Use and Abuse of Blight in Eminent Domain*," with Martin E. Gold, published in *Forham Urban Law Journal*, Vol. XXXVIII (2011): 1119-1173 (Also available through <http://ssrn.com/abstract=1788234>) and "*Public-Private Partnerships and Urban Governance: Coordinates and Policy Issues*," in Birch and Wachter, eds. *Global Urbanization* (University of Pennsylvania Press, 2011).

William Strange (2006 WSF) is currently serving as President of AREUEA.

Grant Thrall (1992 WSF) as President Elect of ARES, participated in the first Leadership Panel held at the 2011 ARES meetings melding academic and the professional real estate industry. Others participating were Steve Phyr (Kennedy Wilson Properties Group), Matt Bruck (North America, Royal Institution of Chartered Surveyors), Douglas Sawyer (CCIM Institute and Sawyer Properties), Ron Phipps (National Association of Realtors), Tom Bisacquino (Commercial Real Estate Development Association, NAIOP) John Leary (Counselors of Real Estate), Joe Magdziarz (Appraisal Institute) and Lori Hatcher (Urban Land Institute).

Marian Wolfe (1984 Dissertation Award Winner) is a principal of a planning and economics consulting firm in Oakland, California. Her clients include cities, counties and nonprofit housing developers. She also teaches as an occasional lecturer at the Department of City and Regional Planning at U.C. Berkeley.



Dr. Fisher as the MC and Honoree at his Retirement Dinner, May 5th, 2011, Indiana University (Photo courtesy of Global Viewpoints of Commercial Real Estate)

Dr. Jeffrey D. Fisher

From Indiana University to the Homer Hoyt Institute

Excerpted with permission from Argus Software's Global Viewpoints of Commercial Real Estate blog. Written by Bruce Kellogg.

ARGUS Software was honored to be a sponsor and participant at the Retirement Reception, CEO Panel & Dinner on behalf of the (not so shy, but) retiring Jeffrey D. Fisher, Ph.D. from Indiana University's Kelley School of Business, Benecki Center for Real Estate Studies.

Jeff has been a friend to much of the real estate world (yes, globally) for many years and has been the recipient of many accolades and awards that have set him apart from most professors in the industry. He has been on the Board of Directors of the

Pension Real Estate Association (PREA), the Homer Hoyt Institute, and the National Council of Real Estate Investment Fiduciaries (NCREIF). He was also a founding Trustee of The Appraisal Foundation in Washington, D.C. He served as the President of the American Real Estate and Urban Economics Association (AREUEA). Jeff has also authored many important textbooks, many of which have been translated into other languages, plus wrote numerous articles in leading journals, as well as served on many of the publications' boards.

Upon retirement (an extremely misleading word), Jeff will become the President of the Homer Hoyt Institute and continue his work with real estate companies and organizations, as well as remain an advisor to the Benecki Center for Real Estate Studies at Indiana University.

Personally and corporately, Jeff has been a wonderful teacher, friend and traveling buddy over the past several years. Knowing him primarily from our mutual involvement with NCREIF, he has been looked upon as a pioneer, educator and mentor to many fortunate to be around him, including myself. He was instrumental in benchmarking of data, with an emphasis on the NCREIF Property Index (NPI), which was a major topic of discussion at the recently concluded Real Estate Research Institute's annual conference in Chicago.

^M_SASI Events and Awards

2011 AREUEA Breakfast

^M_SASI sponsored its annual breakfast for Weimer and Hoyt Fellows, Weimer Fellow Candidates, Post Doctoral Honorees, AREUEA Dissertation winners and MSASI winners recognized by AREUEA during the 2011 AREUEA meetings, January 7-9, 2011 held at the Denver Marriott City Center in Denver, Colorado. The event was attended by more than 40 people.

2011 ARES Breakfast

^M_SASI hosted its annual breakfast during the April 2011 27th Annual ARES meetings at the Seattle Waterfront Marriott in Seattle, Washington. 25 people attended.

2012 AREUEA Breakfast - Saturday, January 7, 2012

^M_SASI will sponsor its annual breakfast for Weimer and Hoyt fellows, Weimer Fellow Candidates, Post Doctoral Honorees, and Dissertation winners at the 2012 AREUEA meetings, January 6 - 8, 2012 in Chicago, Illinois. Invitations containing particulars will be sent this Fall and a prompt reply will be appreciated.

2012 ARES Breakfast

^M_SASI will sponsor its annual breakfast for Weimer and Hoyt fellows, Weimer Fellow Candidates, Post Doctoral Honorees, and Dissertation winners at the 2012 ARES meetings on April 17, at the Tradewinds Resort in St.

Petersburg Beach, FL. A prompt reply will be appreciated when you receive the invitation.

AREUEA Dissertation Awards

HHI provides AREUEA dissertation awards annually in honor of Dr. Maury Seldin. Recipients are chosen by an AREUEA committee and announced at the AREUEA Presidential luncheon. Award recipients in 2010 were **Dr. Colleen Donovan** (Freddie Mac) and **Dr. Daniel K. Fetter** (Wellesley College).

ARES Awards

The ^M_SASI -sponsored prize for the 2010 "Best" Paper on Innovative Thinking, better known as the "Thinking Out of the Box" award was given at the annual ARES meetings. The winner is **Randall S. Guttery** for his paper entitled "*Determining the Most Economically Vibrant Metropolitan Statistical Areas: Creating a Residency Preference Ranking Model.*"

AsRES Awards

This year's winner of the Maury Seldin Advanced Studies Institute-sponsored "Best" Paper award presented at the 15th Asian Real Estate Society International Conference is **Jyh-Bang Jou**, of National Taiwan University, for his paper entitled "*Determinants of Efficient Growth Boundaries with Balanced Budgets and Stochastic Rents.*"

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2012 EVENTS

JANUARY	APRIL	MAY
<p>AREUEA Conference January 6-8 Chicago, Illinois</p> <p>January Weimer School Session January 12-15 Hoyt Center North Palm Beach, FL</p>	<p>ARES Annual Meeting April 17-21 Tradewinds Resort St. Petersburg, Florida</p>	<p>May Hoyt Fellows/Weimer School Session May 17 (<i>Hoyt Fellows</i>) May 18-20 (<i>Weimer School</i>) Hoyt Center North Palm Beach, FL</p>

Property Donations

The administration of HHI would be pleased to discuss the financial and non-financial benefits of a donation with any interested individuals or organization. Transfer may be part gift and part sale. Such gifts support real estate education and research through the Homer Hoyt Institute and the Maury Seldin Advanced Studies Institute.

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