

January 2014 Weimer School Session



January 2014 Weimer School Fellows: L-R Marlon Boarnet (USC), Albert Saiz (MIT), Gilles Duranton (University of Pennsylvania), Jeff Zabel (Tufts University) and Dirk Brounen (Tilburg University)

Another very successful spring session of the Weimer School took place under chilly but sunny skies at the Hoyt Center in North Palm Beach, FL. Over 40 participants, including 15 Faculty members and four Hoyt Fellows, enjoyed an interesting and thought-provoking session. This year's presenters included four 2014 finishing fellows, the 2014 Halbert C. Smith Honorary Fellow and six first year fellow candidates.

Friday's session featured presentations by the 2014 finishing fellow candidates. Fellows and their presentations are as follows: [Dr. Dirk Brounen](#) (Tilburg University) "The REIT Effect, An International Examination;" [Dr. Albert Saiz](#) (MIT), "Women and Power: Unwilling, Ineffective, or Held Back?;" [Dr. Jeffrey E. Zabel](#) (Tufts University), "The Hedonic Model and the Housing Cycle;" and [Dr. Marlon G. Boarnet](#) (University of Southern California), "The Exposition Light Rail Line: A Before-and-After Study of the Impact of New Light Rail Transit Service in Los Angeles."

Saturday's session began with finishing fellow, [Dr. Gilles Duranton](#) (University of Toronto), presenting "Growth in Cities Revisited?" Following were new fellow candidates [Dr. Fernando Ferreira](#) (University of Pennsylvania, The Wharton School) with his presentation "The Role of Contagion in the Last American Housing Cycle" and [Dr. Thomas Davidoff](#) (University of British Columbia) presenting "Reverse Mortgage Demographics and Collateral Performance." After a break for lunch, the 2014 Halbert C. Smith Honorary Fellow, [Dr. Daniel Weinberg](#), gave his presentation on "Data Sources for U.S.

Housing Research." The Saturday session concluded with fellow candidate, [Dr. Yildiray Yildirim](#) (Syracuse University), presenting "Counterparty Risk and Capital Structure."

On Sunday, the final three first year candidates gave their presentations. International fellow, [Dr. Christian Hilber](#) (London School of Economics) presented "Determinants of Land Use Planning Restrictiveness: Panel Data Evidence from England," followed by [Dr. Xudong An](#) (San Diego State University), "The Exercise of Mortgage Default Options;" and [Dr. Michael J. Seiler](#) (The College of William and Mary), "The Effect of List Price Strategies on Real Estate Negotiations: An Experimental Study." *Summaries of the Weimer School presentations can be found on pages 2-4 of this newsletter.*

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The 2014 Halbert C. Smith Honorary Fellow



Daniel H. Weinberg, Ph.D.

The 2014 Halbert C. Smith Honorary Fellow of the Weimer School is Dr. Daniel H. Weinberg, Ph.D. Dr. Weinberg is currently a senior scientist the U.S. Census Bureau's Research and Methodology Directorate. Prior to that, he held many positions at the Bureau, including Assistant Director for the American Community Survey and Decennial Census, Chief of the Census Bureau's Center for Economic Studies, and Chief Economist. Dr. Weinberg received his undergraduate degree in mathematics from the Massachusetts Institute of Technology and his Ph.D. in economics from Yale University. In addition, he has held academic positions at Tufts University as well as Yale University.

Dr. Weinberg has received many honors throughout his professional career. These include the US Department of Commerce's Bronze, Silver, and Gold Medals as well as two Vice President's Reinventing Government ("Hammer") Awards, just to name a few. We are honored to have Dr. Weinberg as one of our Halbert C. Smith Honorary Fellows. A summary of his presentation "Data Sources for U.S. Housing Research," can be found below.

January 2014 Weimer School Session Presentations In Summary...

"Data Sources for U.S. Housing Research"

Dr. Daniel H. Weinberg, Ph.D.
(U.S. Census Bureau)

Good housing policy is evidence-based. After describing his background in data collection, Dr. Weinberg discussed many sources of housing data for researchers, both from government sources (such as the American Community Survey and the American Housing Survey), and from private sources (such as CoreLogic). He also summarized the challenges of using administrative records matched to survey data and proposed to construct new data sources by marrying survey data with administrative records and by constructing synthetic databases using statistical techniques to enhance American Community Survey responses with selected American Housing Survey housing variables.

"The Hedonic Model and the Housing Cycle"

Dr. Jeffrey E. Zabel
(Tufts University)

The hedonic house price model is a significant workhorse when it comes to estimating the marginal willingness to pay (MWTP) of local public goods such as school quality and environmental disamenities. One would expect that the estimates of MWTP will vary over the housing cycle, being largest in magnitude at the peak and smallest in

magnitude at the trough. To get an idea of how much variation in MWTP one might expect over the housing cycle, Dr. Zabel estimates a house price hedonic for the Greater Boston Area using transactions data over a long time period: 1987-2012. The results show that the estimates do vary over the housing cycle and are largest in magnitude during the recent downturn.

"Women and Power: Unwilling, Ineffective, or Held Back?"

Dr. Albert Saiz
(Massachusetts Institute of Technology)

Professor Saiz discussed the issue of female under-representation in executive positions in the real estate industry and at the top of the real estate academic world. He then presented evidence of his research with Dr. Pablo Casas-Arce about female under-representation in the context of electoral politics. Their evidence is not consistent with the existence of pro-male voter preferences. More likely, it points to the existence of internal party dynamics that discourage females from running for election.

"The REIT Effect, An International Examination"

Dr. Dirk Brounen
(Tilburg University)

This paper empirically examines the effects of a regulatory shift on the decomposition of returns. More specifically,

we analyze how the international introduction of the Real Estate Investment Trust (REIT) standard and the corresponding mandatory increase in dividend payout rates has affected stocks' sensitivity to discount rate news. We document that firms, which adopt this REIT standard experience a decrease in leverage, a mild jump in stock turnover levels, and an increase in dividend payouts. This mandatory payout of earnings as dividends appears to be changing the financial DNA of the firms in our sample. Announcements of dividends become less informative, and the strong reliance on dividends alter the systematic risk of REITs. In order to better grasp the effects on systematic risk, we also decompose the beta into a cash-flow beta and a discount beta.

"The Exercise of Mortgage Default Options"

Dr. Xudong An
(San Diego State University)

In this proposed research, Xudong An and his coauthors study the heterogeneity in borrowers' propensity to exercise mortgage default options. The study is motivated by existing research findings that although mortgage borrowers treat default as an exercise of a put option they do not always default when the option is in the money. A natural question to ask is who are more likely to exercise the default option and when borrowers are more likely to take the action. *Cont. on page 3*

January 2014 Weimer School Session Presentations In Summary... (Cont.)

"The Exercise of Mortgage Default Options," Cont.

Preliminary findings show that borrower behavior is business cycle dependent – they are more likely to exercise the option during recession than during expansion. The study also finds that in response to the Home Affordable Modification Program (HAMP), borrowers became more likely to exercise the default option. Finally, option exercise is found to be sensitive to neighborhood foreclosure incidence in many MSAs.

"The Exposition Light Rail Line: A Before-and-After Study of the Impact of New Light Rail Transit Service in Los Angeles"

Dr. Marlon G. Boarnet
(University of Southern California)

Dr. Boarnet presented results from one of the first before-after, experimental-control group studies of travel behavior change near new light rail line stations. Using the recently opened Exposition (Expo) light rail line in Los Angeles as a case study, Boarnet and co-investigator Doug Houston collected 7-day travel data from 204 households. Households were divided into two groups – an experimental group, within ½ mile of the Expo Line stations, and a control group, from ½ mile to more than 2 miles from the new stations. Each household completed 7-day travel tracking in fall of 2011, before the Expo Line's April 2012 opening, and then again in fall, 2012, after the line was open. The data were analyzed using a differences-in-differences approach, comparing before-after changes across experimental and control groups. The results show that households within ½ mile from the new stations reduced daily vehicle miles traveled by approximately 10 miles compared to control households. Results also show some increases in rail transit usage, and analyses that compare travel among households within and beyond 5/8 of a mile street network distance from stations show that the increase in rail trips among households near stations is statistically significant. Among study subjects who were the least physically active (approximately the bottom 40th percentile of daily physical activity in the sample), residence near stations is associated with after-opening increases in physical activity.

"The Effect of List Price Strategies on Real Estate Negotiations: An Experimental Study"

Dr. Michael J. Seiler
(The College of William
and Mary)

When selling a home, an important decision for the home owner is choosing an optimal listing price. This decision will depend in large part on how the chosen list price impacts the post negotiation final sale price of the home. In this study, we design an experiment that enables us to identify how different types of common list price strategies affect housing negotiations. Specifically, we examine how *rounded*, *just below* and *precise* list prices

impact the negotiation behavior of the buyer and seller and, ultimately, the final sale price of the home. Our results indicate that the initial list price does play an important role in the negotiation process. Interestingly, these impacts generally attenuate with negotiating experience.

"Growth in Cities Revisited?"

Dr. Gilles Duranton
(University of Pennsylvania - The Wharton School)

This paper revisits the "growth in cities" analysis of Glaeser et al. (JPE 1992) which underscores the importance of entrepreneurship in urban growth. Glaeser et al's data consisted of a subsample of the 1956 and 1987 County Business Patterns (CBP). Dr. Duranton uses the universe of the CBP at roughly 10 years intervals between 1956 and 2006 including a newly digitised version of the CBP for 1956.

1. Dr. Duranton first shows that he can replicate the results of Glaeser et al. using the same estimation procedure and a comparable subsample. In particular, there is a negative association in the data between average establishment size and subsequent employment growth at the level of city-sectors.
2. Their results are robust to using the extended sample and alternative years of data.
3. This strong negative association between establishment size and subsequent growth is robust to controlling for systematic city and sector effects by year.
4. Using a novel identification strategy to deal with the simultaneity of establishment entry and employment growth in sectors and cities, positive average effects of establishment size on subsequent employment growth become more prevalent.
5. More specifically, the effect of establishment size first decreases between 1956 and the late 1970s where it becomes negative until the late 1980s after which it becomes positive again. This might be related to the considerable shake up that affected both manufacturing and service industries in the late 1970s / early 1980s.

"The Role of Contagion in the Last American Housing Cycle"

Dr. Fernando V. Ferreira
(University of Pennsylvania)

Using proprietary micro data on the complete set of housing transactions between 1993 and 2009 in 99 metropolitan areas, we investigate whether contagion was an important factor in the last housing cycle. We define contagion as the price correlation between two different housing markets following a shock to one market that is above and beyond that which can be justified by common aggregate trends *Cont. on page 4*

January 2014 Weimer School Session Presentations In Summary... (Cont.)

"The Role of Contagion in the Last American Housing Cycle" (Cont.)

Our estimates deal with the following empirical challenges: (a) defining the timing of local housing booms in a non-*ad hoc* way; (b) addressing specification search bias that arises when only one aggregate series is used to estimate both the timing of the housing boom and the magnitude of price volatility during that period; and (c) controlling for common variation in economic conditions.

We find strong evidence of contagion during the housing boom, but not during the bust. These effects appear to arise mostly from the closest neighboring metropolitan area, with the price elasticity ranging from 0.10 to 0.27. This is large enough to account for up to 30% of the jump in prices at the beginning of local booms, on average. Estimated elasticities are greater when transmitted from a larger to a smaller market, and also more important for the most elastically-supplied markets. Finally, local fundamentals and expectations of future fundamentals have very limited ability to account for our estimated effect, suggesting a potential role for non-rational forces.

"Determinants of Land Use Planning Restrictiveness: Panel Data Evidence from England"

Dr. Christian Hilber
(London School of Economics)

This paper explores the determinants of the restrictiveness of local land use planning in England by exploiting a unique panel dataset of 353 local planning authorities ranging from 1979 to 2011. Using direct measures of regulatory restrictiveness and instrumental variables to identify endogenous determinants, we find strong evidence in support of political economy forces (home-voting, lobbying and political ideology). Changing local economic conditions explain the pronounced cyclicity of local restrictiveness. Our findings cast serious doubt on the proposition that planning outcomes in England are driven by benevolent local planners.

"Reverse Mortgage Demographics and Collateral Performance"

Dr. Thomas Davidoff
(University of British Columbia)

Home Equity Conversion Mortgage (HECM) data seem to confirm two concerns about these federally insured loans offered to older US homeowners. First, originations are rare, consistent with a familiar disinterest in extracting home equity through sale among older owners, even those with low wealth. Second, moral hazard and adverse selection appear to operate on HECM's implicit home price insurance. Demographics mitigate both concerns. Consistent with greater demand among those with low wealth, HECM loans

are more common, more responsive to price appreciation, and more intensively used in neighborhoods where large fractions of homeowners are black and Hispanic, and where incomes and property values are below metropolitan averages.

The correlation between minority share of homeowners and late-2000s home price busts explains most observed selection into HECM on price appreciation within metropolitan areas. Selection on price movements and demographics explains away roughly half of poor collateral performance in HECM loans that has been attributed elsewhere to strategic undermaintenance.

"Counterparty Risk and Capital Structure"

Dr. Yildirim Yildirim
(Syracuse University)

The 2007-2009 financial crisis and recession highlighted the role of counterparty risk in financial contracts, many once thought immune to such problems. However, counterparty risk can be significant in a wide variety of contracting situations and can impact capital structure decisions. Within this context, this presentation presents a new model that endogenizes the capital structure of both parties to a contract. It follows Grenadier (1996) and Leland and Toft (1996) to examine the interaction between firm capital structures and equilibrium contract pricing. Moreover, the model featured in this presentation demonstrates that consideration of credit risk is instrumental to confirm the complementarity between lease and debt as suggested by Lewis and Schallheim (1992).

IN MEMORIAM

*Farewell to Hoyt Fellow
and Friend*



Richard M. Langhorne

We lost a good friend and Hoyt Fellow, Dr. Richard Langhorne. Richard passed away unexpectedly on July 17, 2013. He was a familiar friendly face at many of the Hoyt Fellows meetings here in North Palm Beach, Florida. A premier turnaround and asset recovery specialist, he formed his own company, The Langhorne Company, which focused on strategic advisory services to closely-held corporations, family-owned real estate companies, and high net-worth investors and institutions. He will be truly missed by all of us here at the Homer Hoyt Institute. He is survived by his brothers, Jack, Ned and Ross, his nephew, Rossiter, his sister, and his daughter, Anne Langhorne Jeffrey.

**Preview of the May 2014
Hoyt Fellows Meeting
Thursday, May 15, 2014**

Book your flight and register early. Return registration materials to **Carol Reynolds / weimer@hoyt.org**, 561 694-7621.

The Hoyt Fellows program is coordinated by **Greg MacKinnon** (PREA) and **Michael C. Hudgins** (JP Morgan Asset Management). Weimer School Faculty and Fellows, Hoyt Fellows, Post Doctoral Awardees and Speakers are invited to all presentations, breakfasts and lunches at the Hoyt Center.

**Hoyt Fellows Meeting
Thursday, May 15, 2014**

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

Risk – What You Don’t Know *Can* Hurt You

Risk is the dark side of the risk/return equation and always important to any form of investment decision making. Unfortunately, risk is a much more slippery concept than return. The nature of real estate as a private market asset with low liquidity, infrequent transactions, and heterogeneous assets makes getting a firm grip on the concept of risk even harder than for other asset classes. This year’s meeting of the Hoyt Fellows revolves around discussions of real estate risk from various angles. The morning sessions will feature speakers and group discussion on measuring risk on both the equity and debt sides of the market. The afternoon sessions focus on sources of risk in today’s market, first at a macro-level, and then on a micro (sector specific) level. Hoyt Fellows are invited to learn about, discuss, and debate how risk is defined for commercial real estate and what risks investors face in current market conditions.

Topics and Speakers

9:00 am	"Measuring and Managing Risk for Real Estate Equity"	Jim Valente (IPD North America) Jim O'Keefe (REIS Board and NCREIF)
10:45 am	"Credit Risk Pre- and Post-Crisis"	Merrie Frankel (Moody's Investor Service) Tad Philipp (Moody's Investor Service)
12:45 pm	"A Bigger Picture: Risks from Macro-Sources"	David Geltner (Massachusetts Institute of Technology) Brian Nottage (JP Morgan Asset Management)
2:15 pm	"A Closer Look at Sectors: New Trends and Risks to Old Strategies"	Norm Miller (University of San Diego) Gary Ralston (CBC Saunders Ralston Dantzler Realty)
3:30 pm	Hoyt Fellows LLC Business Meeting	
5:00 pm	Reception at Hilton Singer Island Resort - Coconuts Boardroom (Suite #800)	
6:30 pm	Hoyt Fellows Dinner at Riverhouse Restaurant	

**Preview of the May 2014
Weimer School Session
Friday, May 16, through Sunday, May 18, 2014**

The May session of the Weimer School program is chaired by **John Clapp** (University of Connecticut), **Robert Edelstein** (University of California - Berkeley), **Jim Follain** (Collateral Analytics), **Norm Miller** (University of San Diego) and **Susan Wachter** (University of Pennsylvania). Post-doctoral honorees present on Sunday.

Thursday, May 15, 2014

****5:30 pm - Welcome Reception - Hilton Singer Island Oceanfront Resort - Coconuts Boardroom (Suite #800)
participants, spouses & guests****

**Friday, May 16, 2014
Weimer School Session Convenes**

All Hoyt Fellows are invited to participate

****8:30 am - Breakfast buffet - Weimer School participants (includes Hoyt Fellows)****

Measuring and Managing Commercial and Residential Real Estate Risk

Aspects of Real Estate Risk

Session Chair, **Dr. Robert Edelstein** (University of California - Berkeley)

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|----------|---|---|
| 9:10 am | "Macro-risk Factors & the Role of Mispriced Credit in Returns from Real Estate Securities" | Dr. Eva Steiner (University of Cambridge) |
| 10:10 am | "Measuring Risk Premiums for Real Estate Securities" | Dr. Konstantin Magin (University of California-Berkeley) |
| 11:10 am | "Measuring Risk Capital Using NCREIF Data" | Dr. Jeffrey D. Fisher (Homer Hoyt Institute) |
| 12:00 pm | Lunch | |
| 12:50 pm | "The Impacts of Leverage for Real Estate Risk: A Study of International Securities Markets" | Dr. Andy Naranjo (University of Florida) |

The Release of Fannie and Freddie Data: Opportunities for Research

- 1:50 pm **Panel Discussion:**
Chair, **Dr. John Clapp** (University of Connecticut)
Dr. Mark D. Hanson (Freddie Mac)
Dr. Xudong An (San Diego State University)
Dr. Anthony Pennington-Cross (Marquette University)
- 3:00 pm **Weimer School Faculty Meeting**

****6:00 pm - Reception - Hilton Singer Island Resort Coconuts Boardroom - Suite #800 - All participants, spouses and guests****

****7:30 pm - 9:30 pm - Dinner at Grand Asian Crazy Buffet (optional) - participants, spouses and guests welcome****

Weimer School Session "Measuring and Managing Commercial and Residential Real Estate Risk" (Cont.)

Saturday, May 17, 2014

All Hoyt Fellows are invited to participate

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

9:00 am **Panel Discussion: *Automated Valuation Models, Price Trend Analysis, and Big Data Mining***
Chair, **Dr. Norm Miller** (University of San Diego)
Dr. Michael Sklarz (Collateral Analytics)

Lessons Learned, Risk Analysis and Counter-Cyclical Capital Policies

10:20 am **"Preventing House Price Bubbles: Lessons from the 2006-2012 Bust"** **Dr. James Follain** (Collateral Analytics and Rockefeller Institute of

11:00 am **"Housing Finance in the Aftermath of the Crisis"** **Dr. Michael Lea** (San Diego State University and Cardiff Economic Consulting)

11:50 am **"Re-default Risk of Modified Mortgages"** **Dr. Tyler Yang** (Integrated Financial Engineering, Inc.)

12:30 pm Lunch

1:00 pm **Panel Discussion: *The Outlook for Housing Reform***
Chair, **Dr. Susan Wachter** (University of Pennsylvania - The Wharton School)
Mr. Michael D. Berman, JD (Michael Berman Consulting LLC)
Dr. Laurie Goodman (Urban Land Institute)
Dr. Joseph S. Tracy (Federal Reserve Bank of New York)

****6:00 pm - Reception at Hilton Singer Island Oceanfront Resort Coconuts Boardroom (Suite #800)***
All participants, spouses and guests ****

Sunday, May 18, 2014

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

Weimer School Post-Doctoral Honoree Research Presentations

9:00 am **"Do Loan Officers' Incentives Lead to Lax Lending Standards?"** **Dr. Itzhak (Zahi) Ben-David** (The Ohio State University)

10:15 am **"An Analysis of Default Risk in the Home Equity Conversion Mortgage (HECM) Program"** **Dr. Stephanie Moulton** (The Ohio State University)

11:30 am **"Sponsor-Underwriter Affiliation & The Performance of Non-Agency Mortgage-Backed Securities"** **Dr. Peng Liu** (Cornell University)

12:30 pm Lunch - *All participants, spouses & guests*

***** Adjournment *****

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SUMMER 2014 EVENTS

MAY		JULY
<p>Homer Hoyt Institute Hoyt Fellows Meeting / Weimer School Session May 15-18, 2014 Hoyt Center 760 US Highway 1, Suite 300 North Palm Beach, FL May 15 (Hoyt Fellows Mtg.) May 16-18 (Weimer School session)</p>	<p>AREUEA 42nd Annual National Conference May 29-30, 2014 NAHB Headquarters 1201 15th Street NW Washington, DC.</p>	<p>AsRES 19th International Conference July 14-16, 2014 Outrigger Resort Hotel, Surfers Paradise, Gold Coast, Australia</p>
JUNE		
<p>ICSC RECon The Global Retail Real Estate Convention May 18 - 20, 2014 Las Vegas Convention Center Las Vegas, NV</p>	<p>NCREIF Summer Meetings 2014 June 24 - 26, 2014 Lansdowne Resort Lansdowne, VA</p>	

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