

Real Estate Analysis & Derivatives

2 Days

COURSE OVERVIEW

With the return of positive investment returns, real estate once again surfaces as a prime investment class. The asymmetric construction boom has left areas and sectors still open to new development, whilst the low risk investment opportunities in real estate are now numerous throughout Asia. This course equips delegates with the skills and financing techniques necessary to take advantage of these opportunities and manage risk in a globalised economic environment. The course includes numerous Excel models of real estate development and investment, and how to construct and manipulate these models for profit and risk analysis.

LEVEL

Intermediate – Advanced

WHAT WILL I GET OUT OF IT?

- Deconstruct and build real estate cash-flow models
- Evaluate the financial feasibility of real estate deals
- Assess deal structures, including debt and equity returns
- Learn how to negotiate real estate deals
- Analyze the risks and returns of real estate construction and investment, including the methodologies for evaluating and handling different types of risk
- Review and understand synthetic alternatives to real estate, e.g. REITS

WHO'S IT FOR?

- Developers
- Property Managers
- Retail bankers
- Government - Treasury/Finance
- Accountants
- Lawyers
- Investment Bankers
- Major company property departments

COURSE CONTENT

Day One: The Real Estate Finance Process

Real Estate Asset Management

- What is Real Estate Asset Management? - Roles and Definitions
- Cash Flow Management - Performance Measurement and Control
- Liability Management

- Buy/Build Decisions
- Lease Analysis and Decisions
- Financial leverage
- Own versus Lease

Case Study: The own/lease decision process for major corporates

Mortgages

- The legal background
- Borrower Analysis and Housing Affordability
- Underwriting and Financing Residential Properties
- Participation Mortgages, Leases and Sale-Leaseback Financing
- Construction and Land Development Loans

Case Study: The growth of the mortgage market in China

Commercial Property - Assessing Income

- Appraisal of Income Property – Red Book/Blue Book Guidelines and their international equivalents
- Comparison with corporate finance valuation
- Bricks, Mortar, and the Building Envelope
- Lifecycle costing
- Tests of Financial Solvency (Static Analysis)
- Tests of Profitability (Dynamic Analysis)

Steps in real estate development/investment

- The Market Study (with examples)
- HBU analysis (with examples)
- Feasibility Study (with examples)
- Financial models for real estate investment/development (with examples)

Major exercise: construction of a financial model for a commercial office development including forecasts, cost analysis, taxation and NPV/IRR analysis.

Real Estate Investment Trusts (REITS)

- Origin and development of REITS
- Development of REITS in Asia
- Criteria for REITS (including UK PIFs)
- Current issues in the market

Case Study: Returns and Risks in REITS in Hong Kong

Risk and Real Estate

- Applicable risks in real estate investment
- Modelling and evaluating comparative risks
- Risk management strategies

Day 2: Real Estate Derivatives

Introduction to Synthetic Property

- Replication of property performance
- Advantages and disadvantages of synthetic property investment
- The development of synthetic property (PINCS, SPOTS etc)

Indexes and their application to the market

- Types of Index
- Basis risk
- Use of indices in derivatives

Case Study: The Investment Property Databank (IPD) indices and their role in real estate derivatives

Property Derivatives

- Swaps (including sector swaps), forwards, options, futures and contracts for differences
- Applications to real estate
- Property Forward contracts
- Property Index Certificates

Case Study: Deals done so far

Trading and Hedging

- Speculation and hedging
- Timing and motivation for involvement
- Pricing of derivatives – spot, carry and investment pricing
- Liquidity and its significance
- Asset investment planning and investor interest

Case Study: Worked examples of trading and hedging using real estate

Other issues

- Tax (including overseas investors)
- Regulatory Issues
- Accounting treatment for real estate derivatives
- OTC vs. Clearing House treatment
- Trading methods

Case Study: Exchange traded property futures and options

Group Exercise: Three Years: Delegates will form teams representing hedge funds, trading companies, investment banks, public and private real estate investment companies to trade real estate derivatives throughout a three year time-span with regular index and news

Conclusion: The Role of Derivatives in Real Estate Investment