

**Real Estate Capital Markets – FNCE 5533
Fall 2015**

Location: GBLC, Room 302

Professor: Jeffrey P. Cohen

Office hours(Storrs): Monday/Wednesday 1:45-2:45 or by appointment

Office hours(Hartford): Before and after class or by appointment

Class Times: Thursdays, 6:00pm–9:00pm

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Overview:

Real Estate Capital Markets generally refers to *secondary* asset markets, both debt and equity, linked to or backed by real estate assets. This course provides an in depth look at the structure and functioning of real estate capital markets with an emphasis on Mortgage-Backed Securities (MBS), both residential and commercial, as well as (to a lesser extent) Real Estate Investment Trusts (REITs). Over the past two decades, the integration of real estate into the broader capital markets has transformed real estate capital sources and investment products, resulting in a growing range of liquidity and risk-return choices available to investors. As the Great Financial Crisis (GFC) clearly demonstrated, public market integration also creates added volatility and potential risks that may be determined outside the private real estate market. Astute real estate investors today must have a solid understand of both the private real estate markets and the connections with the broader capital markets.

A major focus of the course is the structure and operation of the U.S. mortgage market and the investment characteristics of mortgages and MBS. We will identify and evaluate the nature and sources of risks inherent in mortgages and introduce quantitative techniques suitable for measuring and analyzing those risks.

The first part of the course focuses on understanding the big picture of what happened during the GFC, and what the current outlook is, including:

1. Overview of the boom and bust before and during the GFC
2. What is the current outlook as we embark on possible interest rate liftoff – from the eyes of the Federal Reserve

The second part of the course focuses on the primary mortgage market.

1. Overview of the mortgage markets and the important players in the markets.
2. Basic terminology and fundamental principles of real estate law are covered in this section
3. “Mortgage math” -- calculating mortgage payments, amortization schedules, remaining outstanding loan balances, yield to maturity and APR.
4. Traditional fixed rate residential mortgages, alternative mortgage instruments and the factors influencing the borrower’s choice.
5. Typical commercial mortgages and how they differ from residential mortgages
6. An introduction to the two primary risks of mortgages from both the lender’s and borrower’s perspective.

The secondary mortgage market is the focus of the third section of the course.

1. We begin with the problems associated with mortgage investing that led to the development of mortgage pass-through securities.
2. The most common forms of mortgage-backed securities (MBS) will be presented.
3. Methods commonly used for analyzing MBS will be introduced.

There will also be an introduction to Real Estate Investment Trusts (REITs) in the fourth (and final) section of the course.

There will be several guest speakers at various points throughout the semester.

There will usually be a brief break mid-way through each class session.

Course Materials:

A **financial calculator is required** that is able to calculate internal rate of return (IRR) and net present value (NPV) for non-constant cash flows [TI BA II Plus or HP 10BII or HP 12C are good choices; I prefer the TI BA II Plus].

Required: Select chapters from Mortgage-Backed Securities – Products, Structuring, and Analytical Techniques (second edition), by F. Fabozzi, A. Bhattacharya, and W. Berliner. 2011.

Required: Engineering the Financial Crisis: Systemic Risk and the Failure of Regulation, by J. Friedman and W. Kraus. 2011.

Optional Text: Real Estate Finance and Investments, 14th edition, by W. Brueggeman and J. Fisher. 2011. Earlier editions of this text are fine as well.

In addition, handouts, homework assignments, and additional readings will be assigned and/or posted on HuskyCT. Therefore, *participating in class and taking good notes will be necessary to learn the course material well.*

The additional readings include the following (many will be posted on HuskyCT); I will indicate throughout the semester which ones are most important for you to read (and some others will be added later):

- “Real Estate’s Evolution as an Asset Class” *The Journal of Portfolio Management*, 2009.
- “A Primer on the Mortgage Market and Mortgage Finance,” (McDonald and Thornton), Federal Reserve Bank of St. Louis Review, January/February 2008, 90(1), pp. 31-45.
- “The American Mortgage in Historical and International Context,” (Green and Wachter) *Journal of Economic Perspectives*, Vol. 19, Number 4, Fall 2005, pp. 93–114.
- “The Rise and Fall of Subprime Mortgages” (DiMartino and Duca), Federal Reserve Bank of Dallas *Economic Letter*, Vol. 2, No. 11, November 2007
- “Recent Developments in Mortgage Finance,” (Krainer), Federal Reserve Bank of San Francisco *Economic Letter*, 2009-33 October 26, 2009.
- “Residential Housing and Personal Bankruptcy,” (Li), Federal Reserve Bank of Philadelphia *Business Review*, Q2 2009
- Residential Mortgage Default,” (Elul), Federal Reserve Bank of Philadelphia *Business Review*, Q3 2006
- “Contemporaneous Loan Stress and Termination Risk in the CMBS Pool: How “Ruthless” is Default? (Selson and Wheaton), *Real Estate Economics*, 2009 (forthcoming). *parts to be assigned
- “The Securitization of Housing Finance,” (Sellon and VanHahmen), FRB of Kansas *Economic Review*, 1988
- “The Prepayment Risk of Mortgage-Backed Securities,” (Beckett), FRB of Kansas *Economic Review*, 1989
- “Mortgage Refinancing,” (Krainer), FRB of San Francisco, 2003.
- “The Economics of Structured Finance” (Coval et al.), Harvard Business School, 2008
- “Mortgage Default and Prepayment Risk: A Primer,” (Corcoran), *The Journal of Portfolio Management* (special real estate issue) Fall 2009.
- “The Case for the Return of CMBS,” (Fink), *Real Estate Issues*, 2012.
- “Slapped in the Face by the Invisible Hand: Banking and the Panic of 2007,” (Gorton), Yale and NBER Working Paper, May 2009. Parts TBA
- “Over the Cliff: From the Subprime to the Global Financial Crisis,” (Mishkin), *The Journal of Economic Perspectives*, 2011 (“Financial Regulation after the Crisis” Symposia)
- “A Macroprudential Approach to Financial Regulation,” (Stein et al.), *The Journal of Economic Perspectives*, 2011 (“Financial Regulation after the Crisis” Symposia)

Course Grading:

Assignments 15%	Participation 15%	Exams (midterm and final) 30% each	Book Summary 10%
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