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Optimal Capital Structure and The Market for Outside Finance in Commercial Real Estate

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Abstract

When asked about optimal capital structure, the typical response from a commercial real estate investor is "go for it—use as much debt as possible." Although often the correct answer, when asked why, the response is less compelling, often that "debt is cheaper than equity, so use debt." This answer, while not necessarily incorrect, is not terribly informative. This paper seeks to articulate the economics underlying the market for outside finance in commercial real estate, therefore answer the optimal capital structure question. I establish why a capital structure of inside owner equity and outside senior mortgage debt has worked well historically in terms of producing a low weighted average cost of capital for property owners. The effects of tight constraints on the supply of senior mortgage debt in the context of robust demand for outside finance are then examined. Analysis demonstrates how a gap in the traditional market for outside finance can come to exist and how supplemental financiers can enter to plug the gap. A range of possible supplemental security designs is discussed, including subordinated (mezzanine) debt, convertible debt, and outside equity.

Challenging Traditional Real Estate Market Classifications for Investment Diversification

Executive Summary. Many real estate market classifications for portfolio diversification fail to reflect market fundamentals. Research has attempted to rectify this anomaly—no easy task given property's heterogeneity—but investment strategy and research continue to be dominated by traditional property classes. Two such classifications in the United Kingdom are examined in this paper. Responding to appeals in the literature, local markets are grouped using cluster analysis and rental changes, a key dimension of and underlying influence on total returns. The resulting distribution of markets is compared to the traditional UK regional classification and a broader super-regional classification. In the retail sector, neither grouping is appropriate and attention must be focused on alternative market characteristics. In the office sector, the super-regional grouping is appropriate, reflecting user-group locational strategies.

by Cath Jackson*
Michael White**

Introduction

Investment strategy in the real estate sector concerns the analysis of return and risk in both real estate and alternative investment classes. Focusing on the return element, total return comprises the sum of income return and appreciation (or capital) return, with each (income and appreciation) element calculated through reference to capital outlay. Calculating or estimating capital value involves discounting income using an appropriate yield. Illiquidity in real estate necessitates a long-term investment view, thus involving the analysis of future, as well as current, income, with anticipated future changes to income level reflected within the appraisal. Thus, it is clear that changing income levels form an essential consideration to the analysis of returns on real estate investment.

Patterns of rental change can vary hugely, impacting, therefore, on temporal fluctuations and spatial variations in, and the diversification of, risk. In this context, the examination of rental change has been flagged as requiring urgent attention to improve understanding of underlying influences on total returns and, thus, advance investment performance (Brooks and Tsolacos, 2000; and Hamelink, Hooshi, Liniert and MacGregor, 2000), with studies to date often concentrating on total returns rather than the individual components. Some studies have sought to explore and model capitalization rates (see Jul and Winkler, 1995; and Siviitanidou and Siviitanidou, 1999), but this too is an area characterized as under-researched. Examining and enhancing understanding of the various components

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The Nascent Real Estate Investment Market in Ghana

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Key words: Residential investment, real estate performance, price and rental indices, Ghana

SUMMARY

Globalisation of all forms of real estate investment has increasingly demanded that performance benchmarks of an appropriate quality and international standards be made available to investors and fund managers. For the first time in Ghana, residential price and rent series are developed from hedonic models. These time series are, in turn, used to generate other performance indicators – measures of investment yields and total returns (nominal and real) – in a rapidly growing residential real estate market, using transaction-based data from Accra and Tema, the dominant market. Having generated performance indicators for the aggregate market, this paper also conducts further quantitative analysis of tests for robustness. These take the form of estimating results for different sub-samples representing the various residential submarkets in the country.

The final section provides an international context for the performance of Ghanaian residential investment market, from the viewpoint of a US resident investor. Overall, residential total returns have run at annualised rate made up of a relatively stable income return and highly volatile capital growth between 1992 and 2007. Across submarkets, the differences in long-run returns have been in large part driven by variation in rates of rental value growth.

by

Jeffrey Fisher, David C. Ling, and Andy Naranjo*

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Abstract

This paper examines the short- and long-run dynamics among institutional capital flows and returns in private real estate markets. The main tool of analysis is a vector autoregressive (VAR) regression model in which both institutional capital flows and returns are specified as endogenous variables in a two equation system and in which we also control for various financial and economic variables. At the aggregate U.S. level, where net institutional flows reflect capital being added to the private institutional sector from the non-institutional sector, we find evidence that lagged institutional flows significantly influence subsequent returns. When disaggregated by property type at the national level, we find that capital flows predict subsequent returns in the apartment and office sectors, but not in the retail and industrial markets. At the metropolitan level, we find that flows help explain subsequent returns in a limited number of core business statistical areas (CBSAs), although these CBSAs collectively represent about 30 percent of institutional capital. We find no evidence that institutional returns are predictive of future capital flows at the national or CBSA level, suggesting institutional investors are not chasing returns. Finally, we also document that institutional capital flows into private real estate markets are not generally predictive of future capital flows.

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REAL ESTATE INVESTMENT Trusts (Reits) AND MORTGAGE BACKED SECURITIES (MBS) AS EMERGING TRENDS FOR FINANCING REAL ESTATE DEVELOPMENT IN THE NIGERIAN CAPITAL MARKET

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ABSTRACT: Before now, real estate was regarded as a very cumbersome investment media to venture into. This was largely due to the huge financial outlay required for real property projects, which were often difficult to raise and as such, only the few privileged elite invested in real estate. However, of recent, real estate investment is now securitized (that is, sold as securities in the capital market), thus making it easier for the average investor to engage in. This paper studies the Real Estate Investment Trust (REIT) and Mortgage Backed Securities (MBS) as new channels of harnessing finance for real estate development and the effectiveness of securitization in the Nigerian real estate sector.

KEYWORDS: Real Estate, Investment, Finance, Real Estate Investment Trust, Mortgage Backed Securities, Capital Market, and Securitization.

INTRODUCTION

One of the remarkable achievements of the twenty-first century is the ability to link the real estate market with the capital market thereby creating proper finance machinery and resolve the liquidity problem of real estate through capital market instruments like MBS, REITs, bond and so on. It has been established that a capital market is a segment of a nation's financial system where the main article of trade is medium and long-term financial instruments. Such instruments are generally referred to as securities because of the level of confidence and assurance or guarantee it gives to the investor on the repayment of their principal. It is true that the rate of economic growth of any nation is inextricably linked to the sophistication of its financial market and specifically its capital market efficiency. According to Osaze (2009), the capital market is the only institution known to economic man that has the ability to pool vast long-term financial resources together from fund suppliers and distributing, same to continuously competing uses and users of such resources. Capital markets assist the nations of the world to muster needed financial resources and skills for growth and development of their various economies (Adewuyi and Olowookere, 2011). In Nigeria, the Nigerian Stock Exchange (NSE) is the centre-point of the capital market while the Securities and Exchange Commission (SEC) serves as the apex regulatory body. It provides a mechanism for mobilizing private and public savings and makes such funds available for productive purposes. The Exchange also provides a means for trading in existing securities. The major instruments used to raise funds in the market include equities, debentures, bonds and stocks. Capital markets are classified into

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The average annual yields between 6% and 10% are relatively common, but it is possible yields unique. Benefits in investing in real estate fundsInverts in private real estate funds allows you to diversify without having to manage properties and rent or invest homes. Concept with my local capital market advisor Our experts in capital markets are senior professionals who work without problems through borders to offer real estate solutions. Although private real estate investment funds require a long-term strategy and considerable capital investment, they are also known for their potential to generate high yields. While these efforts certainly have the potential to bear fruit, they are not the only forms of investment in real estate. We specialize in innovative debt financing solutions, advising customers in a variety of financing options including acquisition, refinancing of conventional insured crusage or CMBS debt, alternative pre-sale debt and sales analysis versus finance. All fees and costs are clearly specified in the contract, which means that there may be less surprises when it comes to expenses compared to other types of real estate investments. Private Real Estate Investment Funds allow people to access some of the financial benefits of owning different types of real estate without having to qualify for financing, as well. It is a long-term strategy, but it is worth maximizing the growth potential. Raice Estate Fund Many strategies to invest in real estate. Your current cookies configuration prevents us from sharing this function with you. 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Investors (and their funds) are usually required to remain committed for several years; There may be lockout periods that may last 12 years or more, during which you may not sell your share of the fund. Our Our It combines our local, national and international expertise with the best multidisciplinary team and leading market intelligence to gain exceptional access to domestic and international buyers looking for investment and development opportunities. We offer our clients the maximum flexibility for their transactions, whether by offering alternative solutions to raising capital or by facilitating a higher selling price of assets by offering liquidated debt solutions. Whether you're buying or selling real estate, you need a partner with real-time knowledge of global capital and market trends, great financial insight, and the right relationships to gain opportunities and maximize value and returns. An initial investment could be of a minimum of \$250,000 or more. This is not a suitable type of investment for everyone. When talking about investments, potential returns are likely to arouse their interest. Mortgage REITs provide loans through loans and mortgages. Our expertise has expanded organically across all asset classes, including office, industry, retail, multifamily, hospitality, leisure, urbanization. Avison Young capital markets services Investment sales/portfolio Disposal of assets Recapitalisation of assets Market research Strategic consulting, valuation and valuation Transaction management actions, due diligence, financial analysis Debt and mortgage services Structured leasing Conventional loans and insured by CMHC Inter-floor financing Second mortgages Portfolio financing Financing Bridge financing Participating loan Construction and term mortgages Growth facilities finger For more euq euq asneip odunem a etneg al orep ,avitecarta n'Áisrevni anu opmeit ohcum etnarud odis nah secÁar seneib sol, erehxp/moc.lexipwar :aAsetroc otoF seikooC ritimreP .oitis rop selatipac ed sodacrem ed sodatnoc ortseun euqsub o gnuoY nosivA ed lacol anicifo us noc eseqÁnumoc soirailibomni selatipac ed sodacrem ed soicivres sol erbos Become owner or flipping properties. Apart from buying or flipping properties, two of the most common are private real estate investment funds and real estate investment trustees (REIT). ARTNES Young is a trusted commercial real estate advisor for owners and operators for more than 30 years, and offers investment investment opportunities for customers from all Canada, the United States, Europe and Asia. In general, REIT is more suitable for investors seeking short-term benefits or dividend passive income. As well as ASKMONEY.COM Like actions, Reit shares pay dividends to you instead of assessing how private real estate investment funds do. You can buy part of a REIT portfolio, similarly to how you buy actions. In addition, à € œThe majority of private capital operations situate investors first. The term is used to describe a kind of assets that include joint investments in private and public properties. Private Real Estate Investment Funds are better options for long-term investments. In addition, investors must provide a great commitment of initial capital, and ongoing investments are required over time. The hybrids make a bit of both. both of them.

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