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Problem 21-1

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You have been presented with the following set of financial statements for National Property Trust, a REIT that is about to make an initial stock offering to the public. This REIT specializes in the acquisition and management of warehouses. Your firm, Blue Street Advisors, is an investment management company that is considering the purchase of National Property Trust shares. You have been asked to prepare a financial analysis of the REIT.

National Property Trust Panel A. Operating Statement Summary	
Net revenue	$ 105,000,000
Less:	
Operating expenses	42,000,000
Depreciation and amortization	27,000,000
General and administrative expenses	6,500,000
Management expense	3,500,000
Income from operations	26,000,000
Less:	
Interest expense*	6,400,000
Net income (loss)	$ 19,600,000

*At 8% interest only.

Panel B. Balance Sheet Summary	
Assets	
Cash	$ 52,000,000
Rents receivable	3,000,000
Properties @ cost	750,000,000
Less: Accumulated depreciation	455,000,000
Properties–net	295,000,000
Total net assets	$ 350,000,000
Liabilities	
Short term	$ 53,000,000
Mortgage debt*	80,000,000
Total	133,000,000
Shareholder equity†	217,000,000
Total liabilities and equity	$ 350,000,000

*At 8% interest only.
†10,000,000 shares outstanding.

Required:
a. Develop a set of financial ratios that will provide Blue Street Advisors with useful information in the evaluation and comparison of National Property Trust with other REITs.
b. Your research also indicates that the shares of comparable REITs specializing in warehouse acquisitions in the same regions are selling at dividend yields in the range of 8 percent. Price multiples for these REITs are about 12 current FFO. What price range does this suggest for National shares?
c. What is the NAV for National Property Trust assuming that a blended capitalization rate of 10 percent would be applicable for the properties owned by Blue Street Advisors?

Complete this question by entering your answers in the tabs below.

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Liabilities	
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Complete this question by entering your answers in the tabs below.

Required A | Required B | Required C

Develop a set of financial ratios that will provide Blue Street Advisors with useful information in the evaluation and comparison of National Property Trust with other REITs. (Round your intermediate calculations and final answers to 2 decimal places. Negative values should be indicated by a minus sign. ROA and ROE should be entered as percentages.)

EPS		
NOI		
FFO		
ROC		
Cash Retention per Share		
Net Assets per Share		
Equity or Book Value per Share		
ROA		%
ROE		%

< Required A | Required B >

Check my work

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Net income (loss)	$ 19,000,000

*At 8% interest only.

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Price range from		to	

< Required A | Required C >

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Complete this question by entering your answers in the tabs below.

Required A | Required B | Required C

What is the NAV for National Property Trust assuming that a blended capitalization rate of 10 percent would be applicable for the properties owned by Blue Street Advisors? (Round your answer to 2 decimal places.)

NAV		per share

< Required B | Required C >

2

Problem 21-3

1.5 points

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Atlantis REIT expects an income of $46 per share. This includes a deduction of $40 per share for depreciation. Atlantis did not have any gains from the sale of real estate. Its properties are mainly apartments, and you believe that apartments are currently selling on average at about an 8 percent cap rate. Atlantis has 1 million shares outstanding and its balance sheet shows liabilities of $192 million. Comparable REITs have FFO multiples of about 10. Atlantis is expected to pay a dividend during the next fiscal year of $6 per share and to increase those dividends at about 2 percent per year in the future. Investors in REITs like Atlantis usually expect a return of about 12 percent.

Required:

a. What is the FFO and value per share based on an FFO multiple?
b. What value per share is indicated using a dividend discount model?
c. What is the value per share implied by the net asset value of the properties?

Complete this question by entering your answers in the tabs below.

Required A | Required B | Required C

What is the FFO and value per share based on an FFO multiple?
Note: Round your final answer to the nearest whole dollar.

FFO		per share
Value per share based on an FFO multiple		per share

< Required A | Required B >

2

Problem 21-3

1.5 points

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References

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Complete this question by entering your answers in the tabs below.

Required A | Required B | Required C

What value per share is indicated using a dividend discount model?
Note: Round your final answer to the nearest whole dollar.

Value per share	

< Required A   Required C >

2

Problem 21-3

1.5 points

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Complete this question by entering your answers in the tabs below.

Required A | Required B | Required C

What is the value per share implied by the net asset value of the properties?
Note: Round your final answer to the nearest whole dollar.

Value per share	

< Required B | Required C >

3

Problem 23-1

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An institutional investor is comparing management fees for two competing real estate investment funds. Both funds expect to begin operations and are accepting capital commitments. When the funds begin acquiring properties, capital calls will be made for capital contributions during the investment period. Fund A will charge a fee of 45 basis points (BP) on capital committed and 60 BP on capital invested after the investment period ends. Fund B will charge a fee of 50 BP on capital committed and 55 BP on capital invested after the investment period ends. Both funds expect to have $503,500,000 in capital commitments when the fund commences operations and both project a five-year cycle for startup and acquisitions. Capital flows are expected as follows:

Fund A

	Contributed Capital	Capital Returned	Invested Capital
Year 1	$ 201,400,000	$ 0	$ 201,400,000
Year 2	302,100,000	0	503,500,000
Year 3		0	503,500,000
Year 4		100,700,000	402,800,000
Year 5		50,350,000	352,450,000

Fund B

	Contributed Capital	Capital Returned	Invested Capital
Year 1	$ 302,100,000	$ 0	$ 302,100,000
Year 2	201,400,000	0	503,500,000
Year 3		0	503,500,000
Year 4		50,350,000	453,150,000
Year 5		100,700,000	352,450,000

Required:

a. What will total fees be for Fund (A)? For Fund (B)?
b. Would one of the fee structures cause the manager to want to hold the properties longer before selling than the other fee structure? if so, which one?

Complete this question by entering your answers in the tabs below.

Required A | Required B

What will total fees be for Fund (A)? For Fund (B)?

	Total Fees
Fund A	
Fund B	

4

Problem 23-2

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A closed-end, commingled opportunity fund is being created with an expected three-year life. It expects to acquire properties that it expects to turnaround and sell at the end of three years for a gain. It also plans a minimum target return of 10 percent to investors, which will be based on cash distributions from operations *and* from the sale of properties at the end of the life of the fund. The opportunity fund manager expects to receive a promote equal to 25 percent of cash flows remaining after sale of the assets and after equity investors receive their minimum 10 percent target return. Cash flows are expected as follows:

	Equity Investment	Cash Distributions from Operations to Equity Investors (After Management Fees)	Expected Sale Proceeds
Year 0	$ 2,100,000		
Year 1		$ 55,000	
Year 2		55,000	
Year 3		55,000	$ 3,100,000

Required:
a. What must be the cash flows to equity investors at the end of year 3 in order to achieve their total target 10 percent return on equity investment?
b. How much of the proceeds from property sales must the fund manager receive in order to earn its 25 percent promote?
c. After the equity investors earn their 10 percent target return (IRR) and the fund manager earns the 25 percent promote, how much will be distributed to equity investors?

Complete this question by entering your answers in the tabs below.

Required A | Required B | Required C

What must be the cash flows to equity investors at the end of year 3 in order to achieve their total target 10 percent return on equity investment? (Do not round intermediate calculations. Round your final answer to nearest whole dollar amount.)

Cash flows to equity investors	

< Required A | Required B >

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Homework: REITs and RE Investment Performance Assignment

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4

Problem 23-2

5 points

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Required A | Required B | Required C

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Proceeds from property sales	

< Required A | Required C >

4

Problem 23-2

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Year 2		55,000	
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Required A | Required B | Required C

After the equity investors earn their 10 percent target return (IRR) and the fund manager earns the 25 percent promote, how much will be distributed to equity investors? (Do not round intermediate calculations. Round your final answer to nearest whole dollar amount.)

Amount distributed to equity investors	

‹ Required B | Required C ›

5

Problem 23-3

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A commercial real estate investment fund must report its quarterly investment performance to investors. A summary of its (1) beginning and end-of-quarter assets and equity and (2) cash inflows and outflows during the quarter are as follows:

Beginning of Quarter		During Quarter	
$65 million	Cash	$10 million	NOI from operations
$515 million	Market value of props	$2 million	Paid management fees
$35 million	Other Investments	$25 million	Distributions to investors
$330 million	Fund debt	$215 million	Investor contributions
		$190 million	Property acquisitions
		$40 million	Property dispositions

The other investments will earn 4 percent interest (1 percent per quarter) and fund debt will be at a 6 percent rate (1.5 percent per quarter).

The properties were appraised at the end of the quarter for $670 million.

Assume any interest on short-term investments is offset by interest paid on short-term debt.

Required:

a. What would be the beginning equity value?
b. What would be the ending equity value (MVEE)?
c. Assuming that all cash flows from operations, equity contributions, acquisitions, and distributions occurred at the *end* of the quarter, what would be the quarterly return (IRR)?
d. Assume that all cash distributions to investors occurred equally in 30-day intervals during the quarter. (Investor contributions still occur at the end of the quarter.) What would be an approximation to the IRR using the Modified Dietz approach?
e. Assume that all cash distributions to investors occurred equally in 30-day intervals during the quarter. What would the return be before fees? (Investor contributions still occur at the end of the quarter.)
f. Assume that all cash distributions to investors occurred equally in 30-day intervals during the quarter. What would be the return at the property level? (Investor contributions still occur at the end of the quarter.)

Complete this question by entering your answers in the tabs below.

Required A | Required B | Required C | Required D | Required E | Required F

What would be the beginning equity value?
Note: Enter your answer in millions.

Beginning equity value		million

< Required A | Required B >

Homework: REITs and RE Investment Performance Assignment

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Problem 23-3

7 points

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Complete this question by entering your answers in the tabs below.

Required A | Required B | Required C | Required D | Required E | Required F

What would be the ending equity value (MVEE)?
Note: Do not round intermediate calculations. Enter your answer in millions rounded to 2 decimal places.

Market value of ending equity		million

< Required A | Required C >

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Complete this question by entering your answers in the tabs below.

Required A | Required B | Required C | Required D | Required E | Required F

Assuming that all cash flows from operations, equity contributions, acquisitions, and distributions occurred at the end of the quarter, what would be the quarterly return (IRR)?
Note: Do not round intermediate calculations. Round your final answer to 2 decimal places.

Internal rate of return		%

< Required B | Required D >

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Problem 23-3

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Complete this question by entering your answers in the tabs below.

Required A | Required B | Required C | Required D | Required E | Required F

Assume that all cash distributions to investors occurred equally in 30-day intervals during the quarter. (Investor contributions still occur at the end of the quarter.) What would be an approximation to the IRR using the Modified Dietz approach?
Note: Do not round intermediate calculations. Round your final answer to 2 decimal places.

Internal rate of return using the Modified Dietz approach		%

< Required C | Required E >

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Problem 23-3

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Complete this question by entering your answers in the tabs below.

Required A | Required B | Required C | Required D | Required E | Required F

Assume that all cash distributions to investors occurred equally in 30-day intervals during the quarter. What would the return be before fees? (Investor contributions still occur at the end of the quarter.)
Note: Do not round intermediate calculations. Round your final answer to 2 decimal places.

Return before fees		%

< Required D | Required F >

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Problem 23-3

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Complete this question by entering your answers in the tabs below.

Required A | Required B | Required C | Required D | Required E | Required F

Assume that all cash distributions to investors occurred equally in 30-day intervals during the quarter. What would be the return at the property level? (Investor contributions still occur at the end of the quarter.)
Note: Do not round intermediate calculations. Round your final answer to 2 decimal places.

Return at the property level		%

< Required E | Required F >

6

1.5 points

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References

You have been asked to evaluate returns from your commercial real estate investment fund (Bluestone Fund) against an industry benchmark index to determine how successful your active investment strategy has been. Specifically, a potential client wants you to compare the performance of your portfolio strategy against a passive strategy of simply investing based on the same proportions of properties and locations comprising the index.

During the most current quarter, the following information has been provided to you based on property type and location:

A.

	Bluestone Fund			Industry Index		
Property Type	% of Fund Value	Return	Weighted Return	% of Index Value	Return	Weighted Return
Apartments	20%	14.15%	2.83%	35%	12.15%	4.25%
Hotel	0	16.15	0.00	10	14.10	1.41
Industrial	5	10.15	0.51	30	8.10	2.43
Office	35	4.15	1.45	10	6.25	0.63
Retail	40	10.15	4.06	15	8.25	1.24
Total	100	–	8.85	100	–	9.96

B.

	Bluestone Fund			Industry Index		
Location Type	% of Fund Value	Return	Weighted Return	% of Index Value	Return	Weighted Return
North	30%	11.15%	3.35%	35%	12.15%	4.25%
South	35	12.15	4.25	15	14.10	2.12
East	10	7.15	0.72	25	8.05	2.01
West	25	2.15	0.54	25	6.30	1.58
Total	100	–	8.85	100	–	9.96

Required:

a. Use the Brinson-Hood-Beebower (BHB) approach to calculate the extent to which the Bluestone Fund is over- or (under)weighted by *property type* relative to the industry index.
b. Use the Brinson-Hood-Beebower (BHB) approach to calculate the extent to which the Bluestone Fund is over- or (under)weighted by *location or region* relative to the industry index.
c. To what extent was the performance by Bluestone attributable to property selection versus allocation based on *property type*?
d. To what extent was the performance by Bluestone attributable to property selection versus allocation based on *location or region*?

Complete this question by entering your answers in the tabs below.

Required A | Required B | Required C | Required D

To what extent was the performance by Bluestone attributable to property selection versus allocation based on property type?
Note: Do not round intermediate calculations. Round your final answer to 2 decimal places. Negative values should be indicated with minus sign.

Selection		%
Allocation		%

< Required B | Required D >

Check my work

6

1.5 points

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References

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Required:

a. Use the Brinson-Hood-Beebower (BHB) approach to calculate the extent to which the Bluestone Fund is over- or (under)weighted by *property type* relative to the industry index.
b. Use the Brinson-Hood-Beebower (BHB) approach to calculate the extent to which the Bluestone Fund is over- or (under)weighted by *location or region* relative to the industry index.
c. To what extent was the performance by Bluestone attributable to property selection versus allocation based on *property type*?
d. To what extent was the performance by Bluestone attributable to property selection versus allocation based on *location or region*?

Complete this question by entering your answers in the tabs below.

Required A | Required B | Required C | Required D

To what extent was the performance by Bluestone attributable to property selection versus allocation based on location or region?
Note: Do not round intermediate calculations. Round your final answer to 2 decimal places. Negative values should be indicated with minus sign.

Show less ▲

Selection		%
Allocation		%

Check my work

7

5
points

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Problem 23-7

The following data is reported for a fund and an appropriate benchmark as well as the risk-free rate each year:

	Fund Return	Benchmark Return	Risk-free rate
Year 1	11%	8%	2%
Year 2	12%	9%	2%
Year 3	15%	12%	2%
Year 4	19%	14%	2%
Year 5	20%	14%	2%
Year 6	22%	15%	2%
Year 7	14%	12%	2%
Year 8	13%	11%	2%
Year 9	11%	9%	2%
Year 10	10%	9%	2%

Required:
a. What is the Sharpe ratio for the fund and the benchmark?
b. What is the Treynor ratio for the fund and the benchmark?
c. What is the fund tracking error?
d. What is the beta for the fund?
e. What is Jensen's alpha for the fund?

Complete this question by entering your answers in the tabs below.

Required A | Required B | Required C | Required D | Required E

What is the Sharpe ratio for the fund and the benchmark? (Do not round intermediate calculations. Round your final answer to 2 decimal places.)

	Sharpe Ratio
Fund	
Benchmark	

< Required A | Required B >

7

5
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Skipped

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Problem 23-7

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Year 5	20%	14%	2%
Year 6	22%	15%	2%
Year 7	14%	12%	2%
Year 8	13%	11%	2%
Year 9	11%	9%	2%
Year 10	10%	9%	2%

Required:
a. What is the Sharpe ratio for the fund and the benchmark?
b. What is the Treynor ratio for the fund and the benchmark?
c. What is the fund tracking error?
d. What is the beta for the fund?
e. What is Jensen's alpha for the fund?

Complete this question by entering your answers in the tabs below.

Required A | Required B | Required C | Required D | Required E

What is the Treynor ratio for the fund and the benchmark? (Do not round intermediate calculations. Round your final answer to 2 decimal places.)

	Treynor Ratio	
Fund		%
Benchmark		%

< Required A   Required C >

Check my work

7

5 points

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Year 8	13%	11%	2%
Year 9	11%	9%	2%
Year 10	10%	9%	2%

Required:
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d. What is the beta for the fund?
e. What is Jensen's alpha for the fund?

Complete this question by entering your answers in the tabs below.

Required A | Required B | Required C | Required D | Required E

What is the fund tracking error? (Do not round intermediate calculations. Round your final answer to 2 decimal places.)

Fund tracking error		%

< Required B | Required D >

Check my work

7

5
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Problem 23-7

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Year 7	14%	12%	2%
Year 8	13%	11%	2%
Year 9	11%	9%	2%
Year 10	10%	9%	2%

Required:
a. What is the Sharpe ratio for the fund and the benchmark?
b. What is the Treynor ratio for the fund and the benchmark?
c. What is the fund tracking error?
d. What is the beta for the fund?
e. What is Jensen's alpha for the fund?

Complete this question by entering your answers in the tabs below.

Required A | Required B | Required C | Required D | Required E

What is the beta for the fund? (Do not round intermediate calculations. Round your final answer to 4 decimal places.)

Beta	

< Required C | Required E >

7

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Problem 23-7

The following data is reported for a fund and an appropriate benchmark as well as the risk-free rate each year:

	Fund Return	Benchmark Return	Risk-free rate
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Year 4	19%	14%	2%
Year 5	20%	14%	2%
Year 6	22%	15%	2%
Year 7	14%	12%	2%
Year 8	13%	11%	2%
Year 9	11%	9%	2%
Year 10	10%	9%	2%

Required:
a. What is the Sharpe ratio for the fund and the benchmark?
b. What is the Treynor ratio for the fund and the benchmark?
c. What is the fund tracking error?
d. What is the beta for the fund?
e. What is Jensen's alpha for the fund?

Complete this question by entering your answers in the tabs below.

Required A | Required B | Required C | Required D | Required E

What is Jensen's alpha for the fund? (Do not round intermediate calculations. Round your final answer to 2 decimal places. Negative value should be indicated with minus sign.)

Jensen's alpha		%

< Required D   Required E >