



19 - Portfolio Considerations - ch. 22

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📌 tags	

▼ Supplemental

- ▼ risk = volatility of returns
- ▼ interest rate increase → property value down
- ▼ inflation inc → property value up
- ▼ inflation ince → interest rate increase (delayed, reactionary)

▼ Lecture

- ▼ risk vs return
 - ▼ investments w more risk should provide a higher expected return

Resources

https://s3-us-west-2.amazonaws.com/secure.notion-static.com/b687c86a-31a1-4372-8d5f-777ad3610c9e/17_-_PORTFOLIO_CONSIDERATIONS_-_Chapters_22.pdf

- ▼ beta is a measure of volatility of returns relative to a benchmark
- ▼ alpha is a measure of actual return relative to a benchmark GIVEN the level of risk
- ▼ property performance information
 - ▼ unlike stock and bond markets, real estate performance info is scarce
 - ▼ National Council of Real Estate Investment Fiduciaries (NCREIF) creates quarterly returns for Office, Retail, Apartment, Industrial, and Hotel property types → based on appraisal - imperfect market value
 - ▼ NCREIF index is unleveraged
 - ▼ REIT stock price performance is a proxy for certain types of real estate performance → but also affected by non-real estate factors in market moves
- ▼ business risk
 - ▼ specific to property type, location, and market conditions
- ▼ default risk
 - ▼ properties are usually leveraged → higher LTVs = higher default risk

- ▼ liquidity risk
 - ▼ selling property takes time → real estate is an illiquid investment
- ▼ diversification
 - ▼ lower volatility of expected returns by diversifying risk through many investments
- ▼ correlation coefficient
 - ▼ measures relative move. of one criteria to another
 - ▼ +1 (positively. correlated), 0 (no correlation), -1 (negative correlation)
- ▼ inflation hedge
 - ▼ real estate is usually a good inflation hedge → positively correlated with inflation
 - ▼ when inflation inc. → property values go up
- ▼ portfolio diversification
 - ▼ buying properties of different types and locations → greater diversification
- ▼ global diversification
 - ▼ increase variety of opportunities around the world gives diversification from correlation to US → may reduce portfolio risk

- ▼ foreign investments have other risks
- ▼ foreign investment risks
 - ▼ information risk
 - ▼ legal and tax and rights risk
 - ▼ currency and interest rate risk
 - ▼ political risk
 - ▼ culture/communication risk

▼ Discussion



SUMMARY