



REAL ESTATE FINANCE AND INVESTMENTS

RISKS AND OPPORTUNITIES

Chapter 1 Introduction: Risks and Opportunities

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The Risks

- Expect the unexpected
 - Operating Cost
 - Vacancy
 - Natural Disaster
 - Leasing
 - Liquidity
 - Pandemic

The Opportunities

- Potential upside
 - Operating Costs
 - Terminal Value
 - Rental Growth

Figure 1.1

Present Value of Kuo Office Property at Various Constant Annual Discount Rates							
		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Annual Rental Income		3,000,000	3,180,000	3,370,800	3,573,048	3,787,431	4,014,677
Sale Value	Total	0	0	0	0	0	36,497,061
Total Cash Flow	\$57,423,017	3,000,000	3,180,000	3,370,800	3,573,048	3,787,431	40,511,738
<u>"Long-hand" Present Value</u>		Present Value of Cash Flows					
	Present Value	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Discounted at 0.00%	\$57,423,017	3,000,000	3,180,000	3,370,800	3,573,048	3,787,431	40,511,738
Discounted at 3.00%	\$49,364,457	2,912,621	2,997,455	3,084,760	3,174,607	3,267,071	33,927,943
Discounted at 8.00%	\$38,913,190	2,777,778	2,726,337	2,675,850	2,626,297	2,577,662	25,529,267
Discounted at 12.00%	\$32,557,251	2,678,571	2,535,077	2,399,269	2,270,737	2,149,090	20,524,507
<u>PV-calculated Present Value</u>		Present Value of Cash Flows					
	Present Value	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Discounted at 0.00%	\$57,423,017	3,000,000	3,180,000	3,370,800	3,573,048	3,787,431	40,511,738
Discounted at 3.00%	\$49,364,457	2,912,621	2,997,455	3,084,760	3,174,607	3,267,071	33,927,943
Discounted at 8.00%	\$38,913,190	2,777,778	2,726,337	2,675,850	2,626,297	2,577,662	25,529,267
Discounted at 12.00%	\$32,557,251	2,678,571	2,535,077	2,399,269	2,270,737	2,149,090	20,524,507
<u>NPV-calculated Present Value</u>							
	Present Value						
Discounted at 0.00%	\$57,423,017						
Discounted at 3.00%	\$49,364,457						
Discounted at 8.00%	\$38,913,190						
Discounted at 12.00%	\$32,557,251						

Market Research

- Product Type
- Geography
- Analyze supply and demand balance
 - Supply
 - Existing
 - New
 - Demand
 - Tenants
 - Site-Specific

Figure 1.2

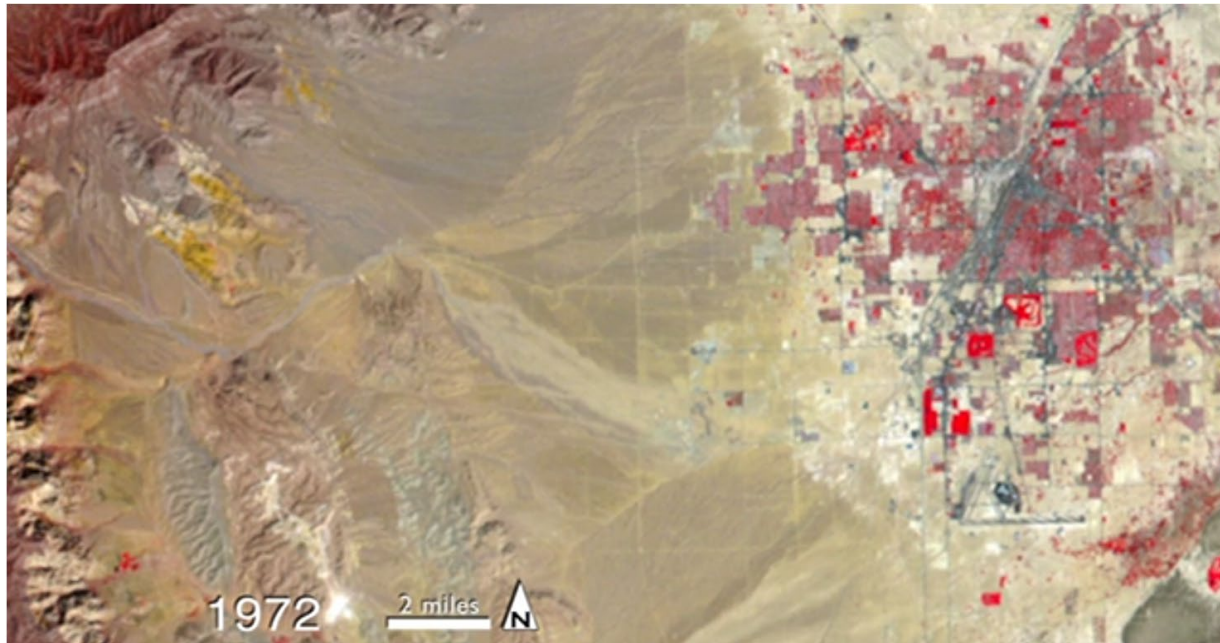


Figure 1.3

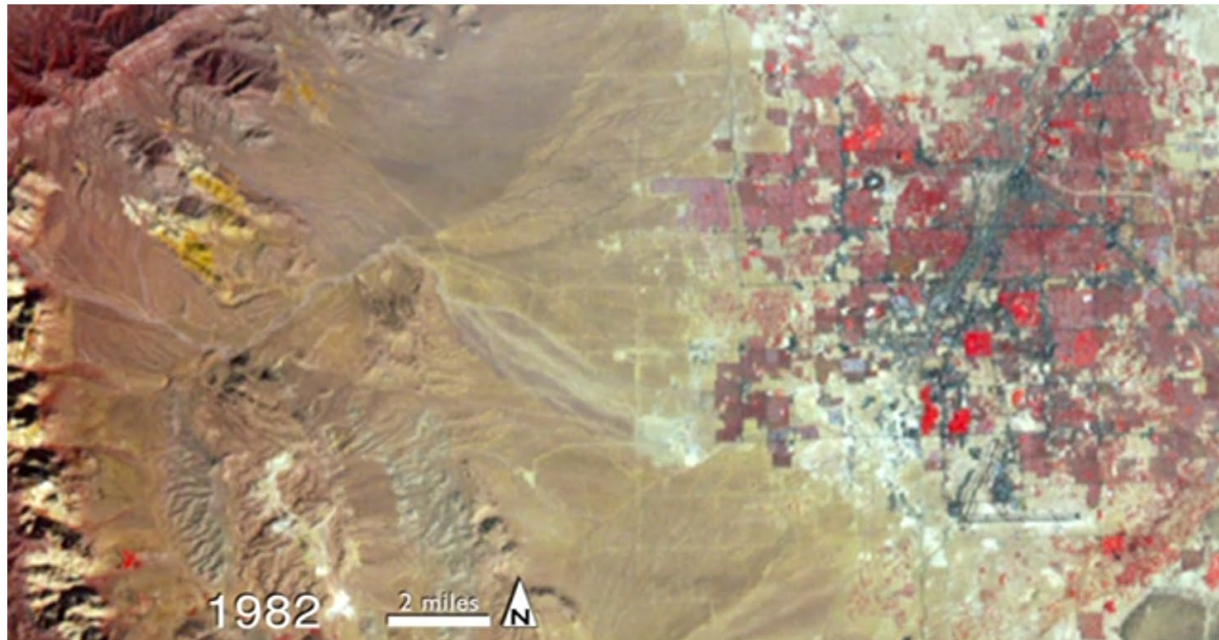


Figure 1.4

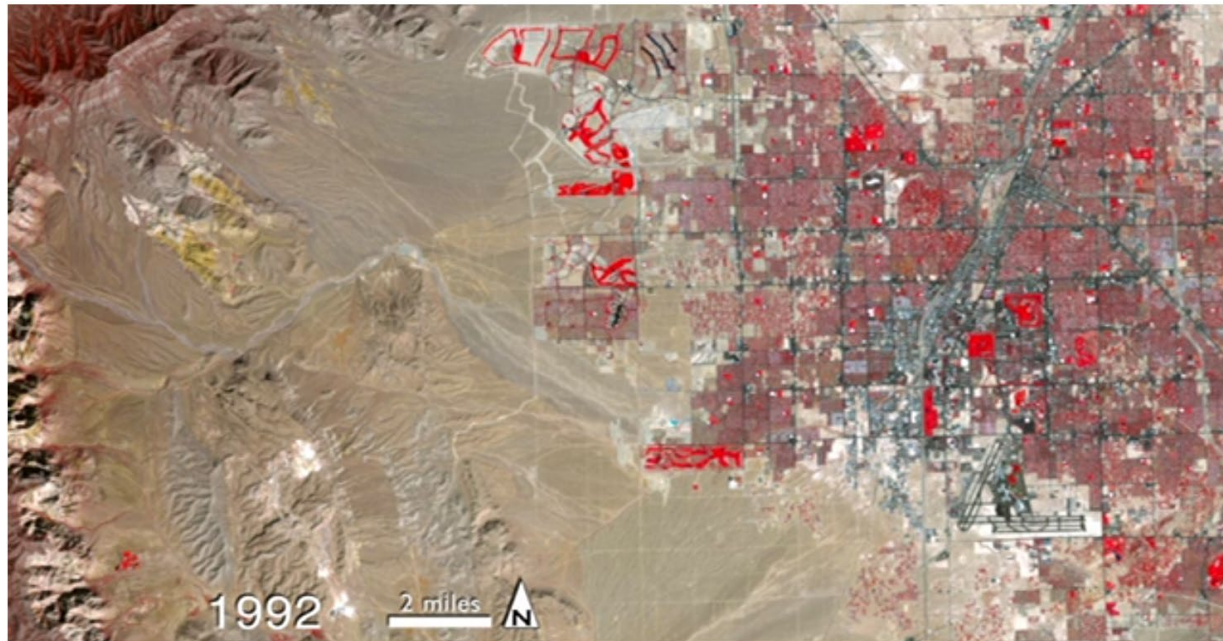


Figure 1.5

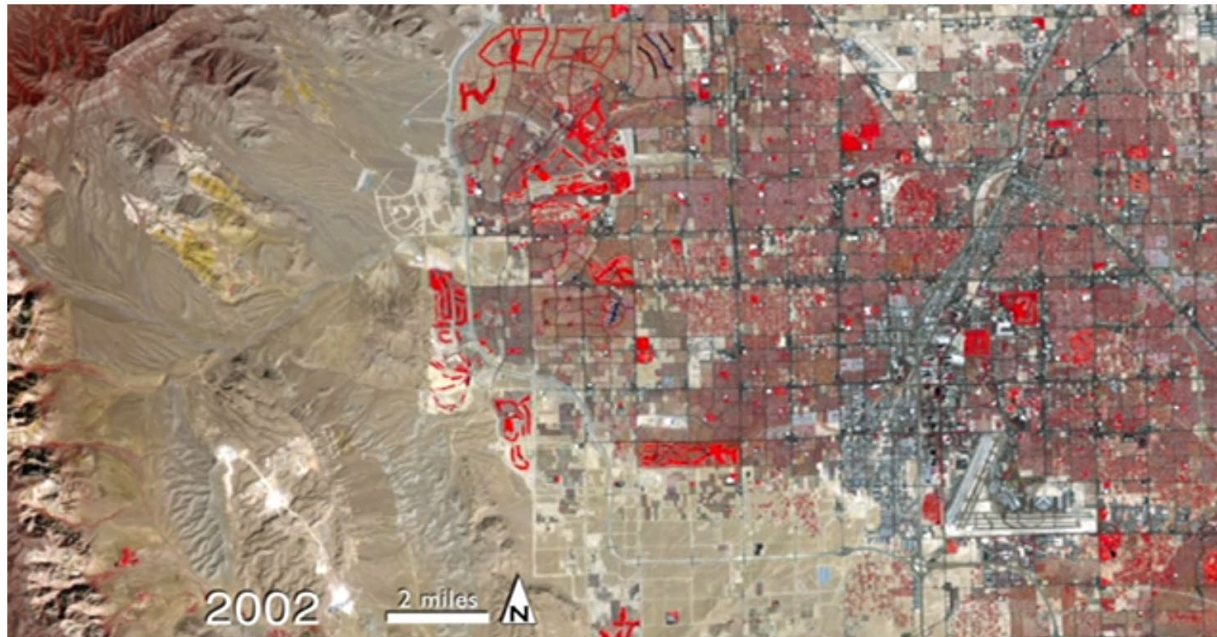


Figure 1.6



Figure 1.7

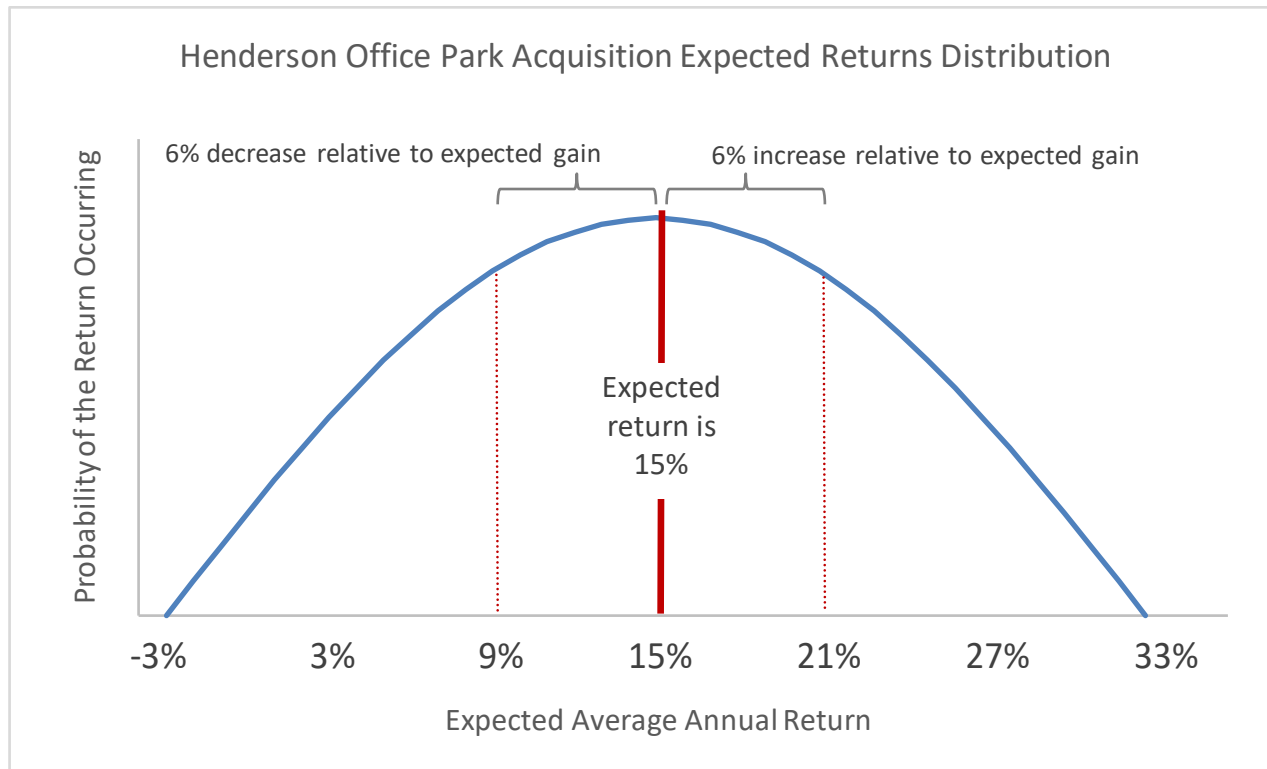


Figure 1.8

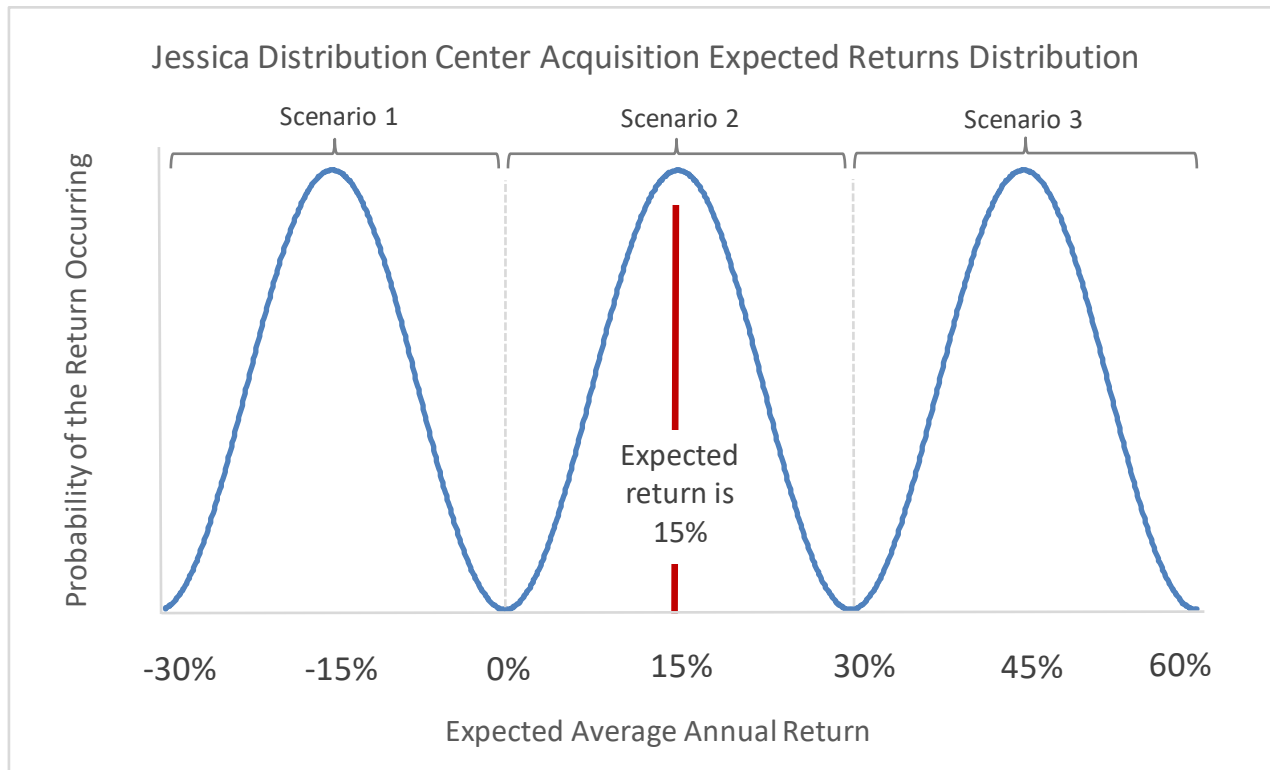


Figure 1.9

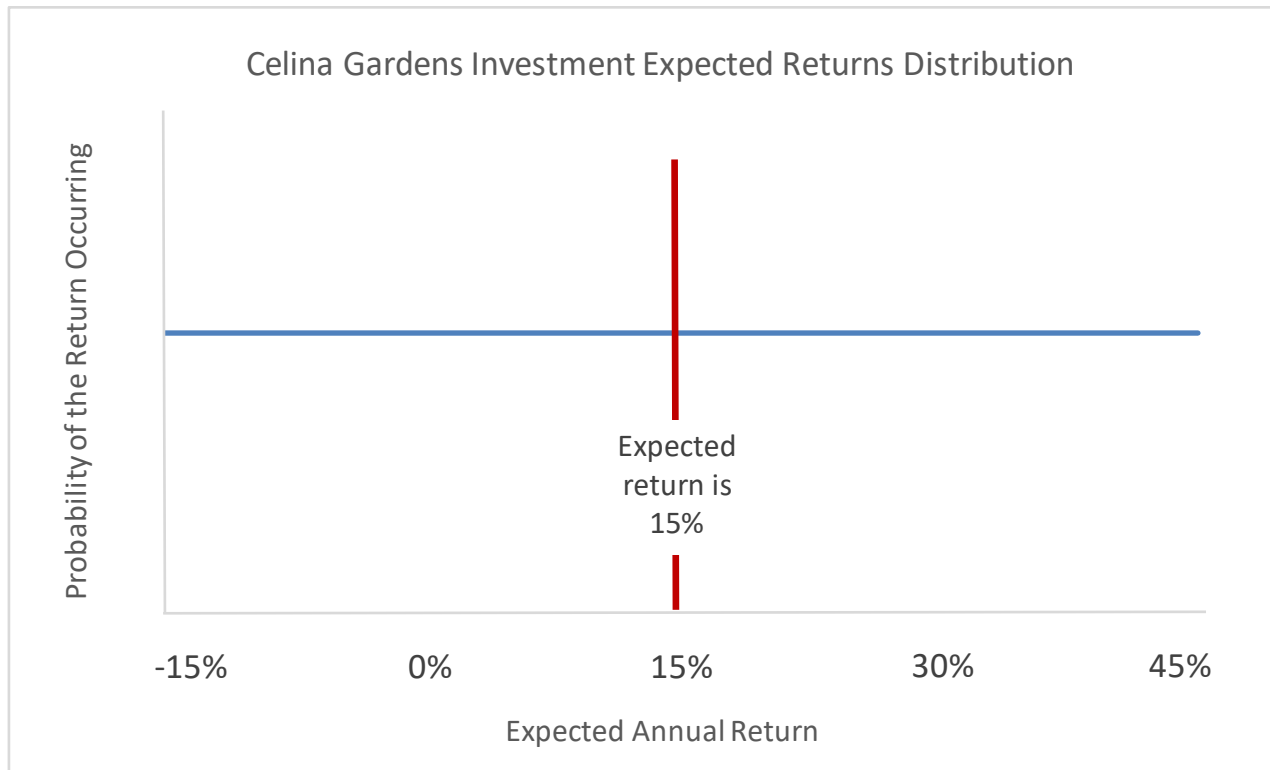


Figure 1.10

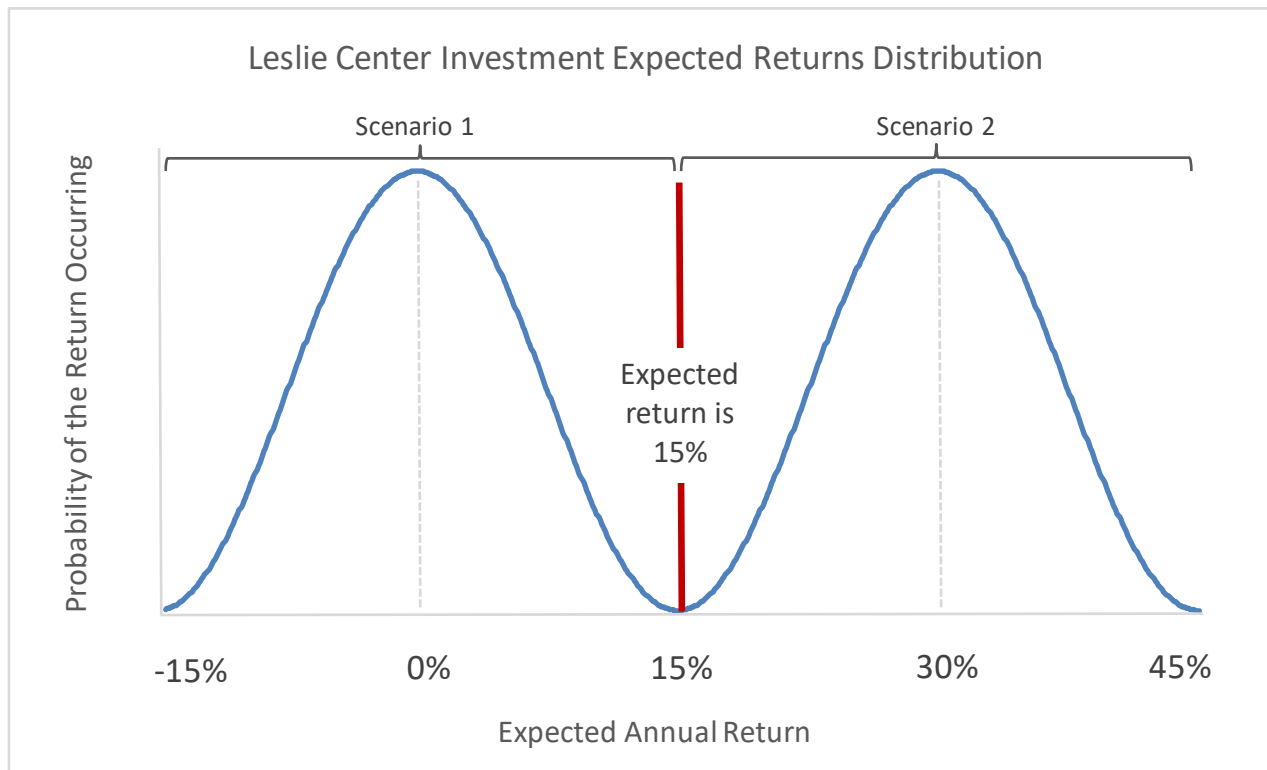


Figure 1.11

The Real Estate Risk Spectrum				
	← Less Risk		More Risk →	
	Investment Profile			
	Core	Core-Plus	Value-Add	Opportunistic
Sample Transaction	Acquisition of a well-occupied, stable cash-flowing office or apartment building in an established sub-market.	Acquisition of Core-type property that needs some relatively minor enhancement; sub-market can be secondary.	Significant value enhancement needed through operating, re-leasing or re-development.	Re-positioning of ailing properties; Ground-up development; Emerging market investments; Buying entire companies with owned operating assets.
Target Levered IRR	7-9%	9-12%	12-16%	16%+
Leverage Employed	0-30%	> 30% <= 60%	> 60% <= 70%	> 70%

Personal Decision

- Investment Goals
- Risk Aversion
- Expertise
- Synergies
- Liquidity
- Holding Period
- Opportunity Cost