

JAMES A. GRAASKAMP COLLECTION OF TEACHING MATERIALS
II. CLASSES AT THE UNIVERSITY OF WISCONSIN--MADISON
R. Correspondence with Guest Speakers
1. Selected Courses, 1968-88

February 19, 1968

MEMORANDUM

TO: Professors Andrews
 Bilkey
 Dodge
 Fine
 Westing
 Wolfe

FROM: James A. Graaskamp

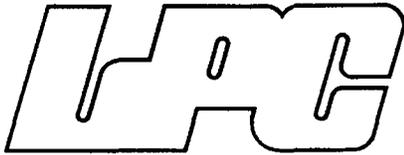
SUBJECT: Re Penney's Eastowne and Westowne

In regard to the seminar visits of specialists from the J. C. Penney Co., travel schedule conflicts have produced a special program schedule. On Wednesday, March 20, William Kurtz, the development specialist, Norman Mens, their mid-western real estate manager, and Joseph Finguerra, their traffic analyst will conduct a special seminar session at the Wisconsin Center.

The seminar will meet from 3:30 to 5:30 and then break for dinner to reconvene from 7:00 until 8:30. I have reserved a private dining room at the Center and dinner will be \$3.00. The only available classroom at the Center has a capacity of 50 so that participation will have to be limited to the 17 students in 847, the 23 students in 938 and any members of the faculty who would like to sit in.

If you plan to attend and you would like to stay for dinner, please let me know as soon as possible.

JAG:lv



October 3, 1980

James A. Grasskamp
Graduate School of Business
1155 Observatory Drive
Madison, Wisconsin 53706

Dear Dr. Grasskamp:

I would be delighted to address your spring semester students on the topic of multifamily housing and equity syndication. I prefer not to rigidly schedule the appearance, however, as it would be more convenient for me to attend to the matter during one of my trips through the Chicago area. I will contact you as my schedule develops further.

Meanwhile, I'm looking forward to my visit with you and will welcome any suggestions on the specifics of the topic that you desire to have me discuss. It's nice to know that LPC has gained your attention back in Wisconsin.

Sincerely,

LINCOLN PROPERTY COMPANY

A handwritten signature in cursive script that reads "Richard Fore".

Richard Fore
Partner

RLF:mz

September 18, 1984

Dr. James A. Graaskamp
Chairman, Real Estate and
Urban Land Economics
The School of Business
University of Wisconsin
1155 Observatory Drive
Madison, Wisconsin 53706

Dear Jim:

I am more than happy to lecture to your Finance class on Monday, November 12, 1984. I will plan on sending you some material for distribution to the class the week prior to my talk. I would also enjoy meeting with the women in the program if they are interested. My timing would allow for the meeting any time later that same day or evening.

Let me know if there is anything else that I should work into my schedule while I'm out there. I look forward to seeing you.

Very truly yours,



Yvonne M. Schell
Project Development Director

/mz-s

Emanuel B. Halper



450 Park Avenue, N.Y. 10022
Telephone (212) 371-3900

February 13, 1985

Professor James Graascand
School of Business
Room 118
1155 Observation Drive
Madison, Wisconsin 53706

Dear Professor Graascand:

Thanks for calling this afternoon.

As you requested, I am enclosing an outline of the negotiation seminar. The outline was intended for a two day fourteen hour seminar. If you prefer a one day session, it would be necessary for me to delete a substantial part of the material. However, I have done so successfully in the past.

As I mentioned on the telephone, I would be willing to accept an honorarium of \$2,000 per day, and the question whether the session will be for one day or two is entirely up to you.

My compensation should also include reimbursement for air fare, hotel, meals and incidental out-of-pocket expenses.

I would appreciate it if a one day session could be scheduled for Monday or Friday. If you prefer a two day session, I would appreciate it if you would schedule it for Thursday and Friday or Monday and Tuesday.

Sincerely yours,


Emanuel B. Halper

3/21/79

HOW TO GET YOUR WAY
WHEN NEGOTIATING REAL ESTATE DEALS

A SEMINAR

- I. Goals of the Seminar.
 - A. Sharpening Negotiating Skills.
 - 1. Understanding and using your personal strengths.
 - 2. Sensitivity to the personality of other negotiators.
 - 3. Increasing ability to relate to others well.
 - B. Learning to Control Our Weaknesses.
 - C. Handling Other People's Weaknesses and Fears.
 - D. Understanding What We Seek to Accomplish in Negotiations

- II. Positive Strategy for Successful Negotiations.
 - A. Your Outlook.
 - 1. How do you see the world?
 - 2. How you view other people?
 - 3. How you see yourself?
 - 4. You're a more experienced negotiator than you think you are.
 - B. Starting a Business Relationship.
 - 1. Creating an appropriate atmosphere.
 - 2. Coming across.
 - 3. Controlling the way parties relate to each other.
 - 4. Bringing out the best in others.
 - 5. Controlling the pace of a deal.
 - C. Feeling People Out.
 - D. Perceiving Your True Bargaining Position.
 - 1. Should you offer your bottom line?
 - 2. Preparation for negotiation.
 - E. Finding a Common Ground.

III. Organizing a Negotiation.

A. Stages of Negotiation.

1. Planning your strategy.
2. Practical considerations.
3. Facts that you need.
4. Striking the bargain.
5. Keeping the deal together.
6. Closing -- The Knockout Punch.
7. Follow Through

B. Planning Your Strategy.

1. Setting your goals.
2. Predicting the other party's goals.
3. Planning to reconcile your ideas with his.
4. Sizing up the other guy.

C. Practical Considerations.

1. How to dress.
2. The car to drive.
3. Introducing yourself.
4. Where to negotiate.
5. Are telephone negotiations successful?
6. Advantages and disadvantages of group meetings.
7. Advantages and disadvantages of a conference table?
8. Where should people sit at a conference table?
9. Negotiating in a private office.

D. Facts That You Need.

1. Prior research to understand comparable deals.
2. Physical characteristics of the premises.
3. Amenities and service.
4. Desirability of property for resale or reuse.

E. Striking the Bargain.

1. Selling yourself.
2. Putting the other guy at ease.
3. Observing other negotiators.
4. Should you negotiate the whole deal at once?
5. Should you come forward with suggestions or should you react to the other party's proposals?
6. Should you negotiate price and terms simultaneously or separately?
7. Do advantageous terms justify a higher purchase price?

F. Keeping the Deal Together.

1. Following up.
2. Timetables.
3. Scheduling meetings.

G. Closing - The Knockout Punch.

1. Organizing the closing conference.
2. Setting an agenda.
3. Looking after everybody's comfort.
4. Driving to finish.
5. 'Round the clock sessions.

H. Following Through.

1. Keeping in touch.
2. Cleaning up details.

IV. Negotiating Tactics To Watch For.

A. The Power of Guilt.

1. The guilt feelings game.
 - (a) The need to appear to be reasonable.
 - (b) Losing by winning.
2. If you won't go along with what I want.
 - (a) I'll lose my job.
 - (b) I'll kill myself.
3. You've hurt my feelings.
4. That's a personal insult.
5. You forgot to pay for lunch. Therefore, the purchase price should be lower.
6. Crying to get your way.

B. Intimidation.

1. The controlled tantrum.
2. The old switcharoo.
3. This is the customary way things are done.
4. Consciously making you uncomfortable.
5. The grand entrance.
6. The ultimatum.
7. The unseen negotiator.
8. Speaking softly.

C. Manipulation.

1. Sucking you in.
2. Wearing you out.
3. Giving ice to Eskimos.
4. Splitting it down the middle.
5. Playing off one party against another.
6. Good Guys/Bad Guys
7. Negative salesmanship.

D. Danger Signals.

1. I can make a deal, but I need committee approval.
2. I'm a man of my word, but.
3. I'm just a country boy.
4. This stuff is over my head. Let's make it simple.
5. I've got another tenant, another lender, another buyer, or another girlfriend.
6. By the way. . .

V. Defensive Tactics.

- A. Sincere and Gentle Confrontation.
- B. Humor the Bastard.
- C. Fight Fire with Fire.
- D. Use Your Sense of Humor.
- E. Reversing Roles.
- F. Emphasizing the Need to be Reasonable.
- G. The Power of Silence.
- H. Breaking the Pace.

VI. Understanding the People You Encounter.

- A. Reading People.
 1. Do people talk with their bodies?
 2. Speaking with cigars, pipes, cigarettes and other lethal weapons.
 3. Leg crossing and arm folding.
 4. Eye contact.
- B. Getting Another Negotiator to Open Up and Show His Cards.
- C. Dealing with Daddy Warbucks, or How to Motivate Somebody who Makes \$5,000,000.00 a Year After Taxes.

D. Dealing with Professionals.

1. Attorneys
2. Brokers
3. Corporate and Public Officials

E. Dealing with Screwballs and Weirdos.

1. The guys who have to win all the time.
2. The guys who squeeze the last drop of blood.
3. The easygoing guys who can be expected to renegotiate later.

VII. Understanding Ourselves as Negotiators.

A. Controlling Your Weaknesses:

1. Remembering names.
2. Losing your temper.
3. How to be assertive.
4. Communicating by teasing.
5. Facing up to bullies.

B. Listening to Yourself.

C. Personal Goals:

1. Good salesmanship to get a deal, is it worth it?
2. Making a deal and losing a friend?
3. Making lots of deals and losing yourself. . .?

One South Wacker Drive
Chicago, Illinois 60606
312 641 0740

John R. Hayes
Regional Vice President



July 30, 1985

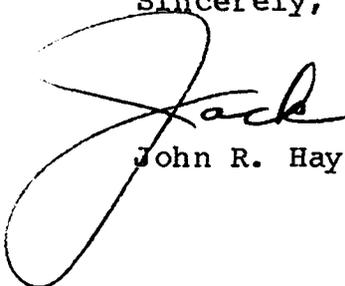
Mr. James A. Graaskamp, Chairman
Real Estate and Urban Land Economics
University of Wisconsin-Madison
Graduate School of Business
1155 Observatory Drive
Madison, WI 53706

Dear Jim:

Thanks for the kind words about both the ABA School and my visit with Tom Whipple. I enjoyed and benefited from both experiences.

I would welcome the opportunity to discuss Fannie Mae with your grad students. Please give me a little lead time when you schedule their trip to Chicago.

Sincerely,



John R. Hayes

Emanuel B. Halper



450 Park Avenue, N.Y. 10022
Telephone (212) 371-3900

May 23, 1986.

James A. Graaskamp
Chairman
Real Estate & Urban Land Economics
Graduate School of Business
University of Wisconsin
1155 Observatory Drive
Madison, Wisconsin 53706

Dear Mr. Graaskamp:

In accordance with Mr. Halper's instructions, I enclose herewith copies of the following:

1. Biography of Emanuel B. Halper.
2. Bibliography of Emanuel B. Halper.
3. A proposed outline for the seminar to be held on June 5 and June 6, 1986.

Sincerely yours,

fr/sh
encls.

Frances Rail, Secretary to
Emanuel B. Halper

Seminar Outline
University of Wisconsin
Negotiating Store and Shopping Center Leases

Instructor: Emanuel B. Halper

Lecture Outline

- I. Background of Store and Shopping Center Leases
- II. Organizing and Drafting Store and Shopping Center Leases
 - 2.01 Pattern of Organization
 - 2.02 Drafting a Lease
 - 2.03 Effect of Exculpation Clauses on Other Clauses
- III. Construction of the Demised Premises
 - 3.01(a) Commencement of Construction
 - 3.01(b) Conduct of Construction
 - 3.01(c) Completion of Construction
 - 3.01(d) Relationship of Construction to the Term
 - 3.02(a) Delivery of Possession
 - 3.02(b) Substantial Completion
 - 3.02(c) Tender of Possession
- IV. Term of the Lease
 - 4.01(a)(i) Relationship of the Term to the Construction
 - 4.01(a)(ii) Tying Down the Commencement Date
 - 4.01(b)(i) Period Between Delivery of Possession and Commencement Date
 - 4.01(b)(ii) Cotenancy Requirements
 - 4.01(b)(iii) Completion of the Common Facilities
 - 4.01(b)(iv) The Seasons
 - 4.02 The Outside Date

V. The Rent

- 5.01(a) Organization of Clauses Relating to Rent and Other Payments a Tenant is Required to Make (E.g. Percentage Rent, Common Area Contributions, Tax Contributions, Insurance Contributions)
- 5.01(b)(i) Minimum Rent
- 5.01(b)(ii) When are Minimum Rent Payments Due?
- 5.01(b)(iii) Where is Rent Paid?

- 5.02 Real Estate Taxes and Other Impositions
- 5.02(a) Agreement to Pay Tax Increases
- 5.02(a)(i) Determining the Base Year
- 5.02(a)(ii) Defining Tax Increases
- 5.02(b) Defining Impositions
- 5.02(b)(i) Special Assessments
- 5.02(b)(ii) Sewer Taxes
- 5.02(b)(iii) Substitute Taxes
- 5.02(c) What is a Fair Share?
- 5.02(c)(i) Tenant's Share as a Fraction of the Tax Increase
- 5.02(c)(ii) Separate Assessments
- 5.02(d) Tax Clauses in a Net Lease
- 5.02(e) Contest of Real Estate Taxes
- 5.02(f) Property Subject to the Real Estate Tax
- 5.02(g) Allocation of Real Estate Taxes When the Shopping Center is Part of a Larger Tax Lot
- 5.02(h) Tax Escrows

- 5.03 Percentage Rent
- 5.03(a)(i) Defining Percentage Rent
- 5.03(a)(ii) When Should Percentage Rent be Due?
- 5.03(b) Carrybacks and Carryforwards

- 5.04 The Lease Year

- 5.05 Gross Sales
- 5.05(a) Definition of Gross Sales
- 5.05(b) Deduction from Gross Sales
- 5.05(b)(i) Refunds
- 5.05(b)(ii) Transfers of Merchandise
- 5.05(b)(iii) Sales Taxes
- 5.05(b)(iv) Cigaretts and Tobacco
- 5.05(b)(v) Bulk Sales
- 5.05(b)(vi) Sales of Fixtures and Equipment
- 5.05(b)(vii) Deposits Received by the Tenant
- 5.05(b)(viii) Vending Machines
- 5.05(b)(ix) Credit Charges

- 5.05(b)(x) Bad Debts
- 5.05(b)(xi) Employee Purchases
- 5.05(b)(xii) Delivery Charges
- 5.05(b)(xiii) Promotional Offerings and Charitable Collections
- 5.05(b)(xiv) Mutual Funds and Insurance Policies
- 5.05(b)(xv) Deductions from Gross Sales Peculiar to Specific Retailers

- 5.05(c) Percentage Rent After an Assignment

- 5.06 Sales Reports

- 5.07 Books and Records

- 5.08 Inspection

- 5.09 Confidential Information

VI. Alterations, Signs, Condition of the Premises

- 6.02(a) Alterations by Tenant During the Term
- 6.02(b) Mortgage Lenders' Views on Alterations
- 6.02(c) Compliance with Legal and Insurance Requirements
- 6.02(d) Real Estate Taxes and Insurance Premiums

- 6.03 Mechanic's Liens

- 6.04 Signs
- 6.04(a) Regulation of Store Signs
- 6.04(b) Regulation of Signs in Shopping Center Common Areas
- 6.04(c) Regulation of Shopping Center Pylon Signs
- 6.04(d) Repairs to Signs
- 6.04(e) Removal of Signs

VII. Repairs, Compliance and Surrender

- 7.01 Traditional Approaches to Repair Clauses (tenant repairs interior nonstructural, landlord repairs the rest)

- 7.02 Variations to Traditional Repair Clauses (shifting responsibility to the tenant)
- 7.02(a) Repairs Caused by Settling of the Building
- 7.02(b) Drafting Suggestions on Repair Clauses
- 7.02(c) Repairs Needed Because of a Party's Negligence or Default
- 7.02(d) Repairs Needed as a Result of Fire or Casualty

- 7.02(e) Repairs to Heating and Air Contitioning Equipment
- 7.02(f) Repairs Required Near End of Term
- 7.02(g) What is an Interior Repair?
- 7.02(h) Repairs to Pipes and Wires
- 7.02(i) Glass Store Fronts
- 7.02(j) Construction Warranties
- 7.02(k) Repair Clauses in Net Leases

- 7.03 Compliance
- 7.03(a) Compliance with Laws
- 7.03(b) Compliance with Insurance Requirements

- 7.04 Emergency Repairs

- 7.05 Surrender of the Premises

IX. Use of the Premises

- 9.01 Use Clauses
- 9.01(a) Background of Use Clauses
- 9.01(b) Confusion Over Use Clauses
- 9.01(c) Department Store Use and Exclusive Clauses
- 9.01(c)(i) Use for Any Legal Purpose
- 9.01(c)(ii) Restrictions Against the Sale of Prescription Drugs
- 9.01(c)(iii) Other Restrictions Against Department Stores
- 9.01(c)(iv) Department Stores' Concern About Each Other
- 9.01(c)(v) Department Stores' Concern About Supermarkets
- 9.01(c)(vi) The Department Store and Supermarket Side by Side
- 9.02(c)(vii) Department Stores' Attitude Toward Theaters
- 9.01(c)(viii) Carving up a Department Store
- 9.01(d) Supermarket Use Clauses and Restrictions
- 9.01(d)(i) What the Supermarket Can Sell
- 9.01(d)(ii) Supermarket Restrictions Against Other Supermarkets
- 9.01(d)(iii) Restrictions Against Sales of Food for "Off Premises Consumption"
- 9.01(d)(iv) Restrictions Against Sales of Alcoholic Beverages
- 9.01(d)(v) Supermarket-Imposed Restrictions on Department Store Food Sales
- 9.01(d)(vi) Restrictions Against the Sale of Special Classes of Food
- 9.01(d)(vii) Supermarket Restrictions on Drugstores
- 9.01(d)(viii) Food Restrictions Applied to Variety Store
- 9.01(d)(ix) The Supermarket Reaction to Specialty Food Store

- 9.02(a) Why the Use Clause Won't Require a Tenant to Conduct Business
- 9.02(b) Implied Covenant to Conduct Business
- 9.02(c) Express Covenant to Conduct Business
- 9.02(d) Tenant's Business Name
- 9.02(e) Covenant to Open for Business
- 9.02(f) Hours of Operation

Emanuel B. Halper



450 Park Avenue, N.Y. 10022
Telephone (212) 371-3900

June 10, 1986

James A. Graaskamp
Chairman
Real Estate & Urban Economics
University of Wisconsin
School of Business
1155 Observatory Drive
Madison, Wisconsin 53706

Dear Jim:

I'm enclosing an invoice for my honorarium and expenses.

Thank you very much for the opportunity to teach in the Graduate School Program. It was an unusual and stimulating experience for me. It was so partially because all of my previous teaching experience has been in continuing education. It's so much nicer to work with people who have a commitment to learning.

Perhaps a more important experience, however, was getting to know you and Rod Matthews. Each of you is unique, and I hope that we will be friends for many years. To make sure you don't forget, I'll put you on my mailing list. Please let me know when you will be in New York next so that we can renew our friendship.

Sincerely yours,



Emanuel B. Halper

EBH/mm

Emanuel B. Halper
770 Bryant Avenue
Roslyn Harbor, NY 11576

August 12, 1987

Dr. James A. Graaskamp
The School of Business
University of Wisconsin
1155 Observatory Drive
Madison, Wisconsin 53706

Dear Jim:

Thanks for the check, and thanks for the opportunity to be with you and the students at the University of Wisconsin this June.

I hope that we'll have a chance to work together again and even more importantly to be with each other again.

Meanwhile, I ask a small favor. The law firm has moved from 450 Park Avenue and my new New York office isn't set yet. Given these circumstances, I think it would be best if all mail were sent to my home. My home address is 770 Bryant Avenue, Roslyn Harbor, NY 11576.

In case you want to reach me before the new office is open, you can still call me at the law firm. Although it has moved, its telephone number remains the same.

Sincerely yours,



Emanuel B. Halper

EBH/mm

To: Jim Blakely
From: Jim Graaskamp, Rod Matthews
Date: October 13, 1987
Re: A PROPOSAL FOR 3 WEEK INTERSESSION COURSE
SPRING 1988

REAL ESTATE TRANSACTIONS: The Deal-Making Process

The essence of the real estate system is the dynamic process in which property is bought and sold. This experimental three week intersession course will focus on the preliminary and final real estate negotiations as represented by the negotiations relating to the offer to purchase and the negotiations occurring at the real estate closing, as well as the process by which the deal is put together, who the players are, and the tools of that process. The course will focus on the legal elements, the business strategy, and the psychology of the deal-making process.

Outside Faculty:

Jim Curtis
Attorney Katz
The Bristol Group
San Francisco

415-398-1022

Herb Cohen
Negotiator, Lawyer, & Lecturer
Chicago

Attorney Emanuel Halper
New York

203-549-1674
516-294-6908

AIA

212-371-3700

Jim Haft - 312-477-3900

W.P. →
U.S. →
U.S. →

October 27, 1987

Students of RE856
c/o James A. Graaskamp
Room 118
School of Business
University of Wisconsin
1155 Observatory Drive
Madison, Wisconsin

Dear Chief:

A question arose last week that needs clarification. During my talk to the 856 class, I mentioned that during the first 8 years out of the Program I never did a cost approach and I always did an after-tax valuation; and that during the last 2 years I have always done a cost approach and always done a pre-tax valuation. A student interpreted my statement to mean that I rely on the cost approach. I want to make it perfectly clear to the 856 class that I do a cost approach, at a cost to me of approximately \$2.50 per building (courtesy of the M&S Interactive Program). I do the cost approach because its cheap and many clients expect to see it. However, I never ever rely on the cost approach as an indication of market value. I basically blow it apart in the Reconciliation section of the report.

As became clear to me during and after I left the Program, real estate decisions and the players in the real estate arena require "value". As should have become blatantly obvious to those students who attended the seminar, appraisal theory is constantly evolving. Just as real estate appraisers of today are purveyors of supply-side statistics, so also must we become purveyors of demand-side research. We need intelligent, energetic and ethical people joining the appraisal arena; we need Graaskamp disciples.

I am honored to have had the privilege of speaking to your 856 class, thank you Chief for asking me.

Very truly yours,

A handwritten signature in black ink, appearing to read "Robert L. Parson", with a long horizontal flourish extending to the right.

Robert L. Parson

Applied Real Estate Portfolio Management
University of Wisconsin RE Students
by: J. R. DeLisle
on: February 20, 1988

- I. Introduction to Applied Portfolio Management
 - A. Definition
 - Managing the PLC of assemblage of RE assets with the objective of achieving satisfactory R/R positioning and realization over expected holding period
 - B. Active vs. Passive Mgmt.
 - 1. Objectives stated and quantifiable
 - 2. Positioning measurable, in relative sense
 - 3. Longitudinal and Continuous
 - 4. Interactive, dynamic
 - 5. Controllable vs. Uncontrollable
 - 6. Strategic and tactical
 - 7. Random vs. planned
 - 8. Situational
 - C. Evolution of Equity Portfolio Management
 - 1. Stage I: Individual Investment
 - 2. Stage II: Commingled Open-end and Closed-end funds
 - a. Open-end Fund (3/'87)
 - 1) Examples
 - a) Equitable \$3200 m
 - b) Aetna \$1700 m
 - c) PRISA \$4650 m
 - d) Others (in EAI Reports) \$5500 m
 - 2) Nature
 - planned expansion/contraction with no termination date
 - b. Closed-end Fund
 - 1) Examples
 - a) RREEF \$1868 m
 - b) JMB \$1700 m (total several)
 - c) Heitman \$498 m
 - d) Coldwell \$532 m
 - e) Others \$4590 m
 - 2) Nature
 - a) Finite life
 - b) Fixed size
 - 3. Stage III: Specialized Accounts, Customized Portfolios
 - 1) Various single-client accounts, not publicly reported
 - 2) Nature: Opportunity vs. core
 - a) Core: market risk portfolio with specified diversification goals
 - b) Opportunity: higher risk/return

- by timing and "bets"
- 3) Structure
 - a) Direct investments
 - b) Managed investments

II. Portfolio Optimization

A. Nature of Analysis

1. Multi-phase

- a. Phase I: Asset Allocation. RE in Mixed Asset Portfolio
 - b. Phase II: RE Asset Allocation. RE by Property Type, Location, and other diversification cuts
- #### 2. Quantitative/qualitative Process
- a. Modern Portfolio Theory
 - b. Real Estate Theory
 - 1) Micro-analysis of product/market fit in political/economic context
 - 2) Urban Land Economics
 - a) Intra-urban (Structure, Succession Situs)
 - b) Inter-urban

B. Diversification

- 1. Definition: seeking non-covariant asset positions to manage risk
- 2. Type of Risk:
 - a. systematic (i.e., throughout market)
 - b. unsystematic -- local phenomena..diversifiable
- 3. Bases
 - a. Inter-class
 - 1) Asset Class
 - 2) Nature of position
 - b. Intra-class
 - 1) Sub-class
 - 2) Positions
- 4. Real estate Diversification
 - a. Traditional
 - 1) Property Type
 - Physical: Office, Retail, Hotel, Ind., Res. & Other (e.g., land, farms, specialty...)
 - 2) Geographic
 - Regional (e.g., E, W, Mw, S)
 - b. Non-traditional
 - 1) Positional
 - a) Ownership: single, joint, multiple
 - b) Debt: Pure debt, hybrid, securitization....
 - 2) Contemporary
 - a) Nature of RE
 - Property Type

- Position (e.g., lease term, tenant SIC...)
 - 3) Geographic
 - Economic base vs. Euclidian Distance or region
- C. Portfolio Construction Process
1. Establish Optimal Frontier
 - a. Basis: Modern Portfolio Theory
 - b. Nature: Quadratic optimization procedure
 2. Quantitative Inputs
 - a. Risk, measured in standard deviations of time series of returns by asset class
 - b. Return, measured by mean historical (expected) return of time series by asset class
 - c. Correlations (or covariances) across asset classes
- D. Asset Pool Criteria
1. Exhaustive asset categories
 2. Mutually exclusive
 3. Independent (reasonably)
 4. Robust: Stable estimates
 5. Representative of the "market"
- E. Inclusion Criteria
1. Return Benefits
 - a. Nature
 - 1) Magnitude
 - 2) Quality
 - 3) Source
 - a) Income Return
 - b) Appreciation Return
 - b. Portfolio Benefits: relative pattern by asset type
- III. Real Estate in Mixed Asset Portfolio
- A. Role: improve total portfolio performance
 - a. Increase return
 - b. Lower risk via diversification: note RE has negative correlation with stocks and bonds
 - B. Problem with Including Real Estate Assets
 1. Data limitations
 - a. Quantitative
 - 1) Time series too short
 - 2) Data not "representative"
 - b. Qualitative
 - 1) Real estate deviations "suspect" since based on appraised values verses transactions (2.3%-5%)
 - 2) Lack of familiarity with real estate asset by financial analysts

- 3) Intuitive: RE loads too heavily in the mixed asset portfolio (>60%)
- 2. Treatment of Risk to Offset Limitation
 - a. Ratio approach
 - 1) Calculate ratio of real estate return to stock return (RErr/Srr)
 - 2) Multiple stock risk by ratio
 - (RErr/Srr) $S'risk *$
 - 3) Effect: RErr increase from 4% to 19%
 - b. Judgemental Approach: subjective
 - c. Backdoor Approach: (student's??)
 - 1) Begin with desired RE composition
 - 2) Apply MPT to back into RRrisk
- 3. Research Approach: construct transaction-based return series
- C. Optimal Range
 - 1. MPT/Intuitive conclusion: 5 - 15 percent
 - 2. Actual Range
 - a. Historically at low end
 - b. Actual percentage responds to fluctuation in financial markets (i.e., Black Monday unilaterally increased RE exposure)
 - c. Current Role of RE in Pension Portfolios

	'81	'85
RE Equity	3.7%	4.2%
Stocks	40.6	41.6
Bonds	37.5	33.3
Cash	12.1	8.5
Other		

 - (note: in '81, includes mortgages!!!)
 - '84-85 .9% gain = \$13 billion)
 - 3. Future
 - a. Short term: uncertain
 - b. Long term: some inclusion especially with recession scenario and increased volatility of financial markets

IV. Mixed Real Estate Portfolio

- A. Structure: Multi-phase
 - 1. Identify discrete asset classes
 - 2. Set target ranges
 - 3. Monitor Markets
- B. Nature
 - 1. Dynamic, in light of changing market conditions and values
 - 2. Goal oriented; to fit risk/return requirements of sponsor
 - 3. Multi-period; to take advantage of current cap rate differentials across asset classes
 - 4. Achieves meaningful diversification
- C. Process

1. Phase I: Property Type Mix
 - Current Mix (based on \$24 billion)

	Mix	Returns
Office	41%	8.6%
Industrial	17%	11.8%
Retail	24%	11.5%
Residential	12%	8%
Hotel	6%	4.5
2. Phase II: Locational Mix
 - a. Current 4-region mix
 - By Region

East	28%
South	21%
Midwest	14%
West	37%

V. Economic Diversification

- A. Typology of Markets
 1. Legitimization: the "oil patch"
 2. Alternatives: 9 regions vs. 4 regions
"Much ado about nothing!"
 3. Goal: meaningful diversification
 4. Structure
 - a. Employment Performance Zones
 - b. Economic Location
 - 1) Economic Role
 - 2) Driving Forces
- B. Employment Performance Zones
 1. Objective: cluster markets on basis of overall employment change
 2. Design: 1974-1987
 - a. 1970s boom/bust
 - b. 1980s boom/bust
 3. Technique: quartile rankings
 - a. Percentage
 - b. Absolute
 4. Categories
 - a. Proven markets
 - b. Cyclical Markets
 - c. Countercyclical Markets
 - d. Tactical Markets
 - e. Strategic Markets
- C. Economic Role
 1. National
 2. Regional
 3. Subregional & Specialized
 4. Government
- D. Driving Forces
 1. Objective: identify dominant employment characteristics using modified location quotients

2. Design: cross-sectional, 1986 jobs by 2 digit SIC codes
3. Technique: Chi-square test to judge over and under concentration
4. Categories
 - a. Diversified
 - b. Distribution/diversified
 - c. Distribution/Financial Services
 - d. Manufacturing/Diversified
 - e. Manufacturing/Specialized
 - f. Energy Diversified
 - g. Energy Specialized
 - h. Government: Federal
 - i. Government: State
 - j. Manufacturing/Distribution

VI. Research Issues

1. What is "meaningful" inter-urban diversification?
 2. How identify market cycles (short term and long term); what are leading indicators?
 3. How incorporate demographic trends?
 4. What role is "quality of life", how use?
 5. How monitor markets on timely basis (say, top 100MSAs)
 6. How consider submarket at portfolio level; how monitor?
 7. How tap into second and third-tier markets; trade-off on management side?
 8. How do Centripetal vs. centrifugal forces affect RE performance at the local level?
 9. What macro-economic trends affect local demand?
 10. _____
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PRG's Research Agenda

Market Typology
Multi-stage Filtering Model
Target Market Analysis
Target Market Monitoring System

AVCHEN. WP
3-30-88

March 30, 1988

Daniel Avchen, AIA
Vice President
Hammel Green and Abrahamson, Inc.
Architects & Engineers
1201 Harmon Place
Minneapolis, MN 55403

Dear Dan:

The Real Estate Department would like to express its appreciation for your presentation on elderly housing design to our graduate group and feasibility class. It is always important to sensitize our business students to design elements and land forms, and you served that purpose very well.

Jean wants to thank you for sending along a list of your elderly housing project credits.

With appreciation,

James A. Graaskamp
Chairman
Real Estate and Urban Land Economics

JAG:bam