

# Investment Analysis for Real Estate Decisions

2nd Edition

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# Preface

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Uniform praise for the first edition of *Investment Analysis for Real Estate Decisions* made us reluctant to tinker further. Critics applauded the book for coherently integrating the diverse elements of economics, law, finance and taxation that are at the core of real estate investment analysis, and for being at the same time readable and intelligently challenging.

However, even the best book can be improved. Moreover, new income tax law and evolving market structures have largely outdated texts with pre-1987 copyrights. This new edition incorporates the latest tax provisions and includes discussion and analysis of the most recent innovations in market instruments and structures.

Determined that the second edition should be more than a mere reshuffling and updating of old components, we asked for advice from prominent real estate professors in the nation's top programs. With their help we have produced a book that gives students a competitive edge in today's sophisticated real estate investment arena.

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## READABILITY

*Style* is the ability to write with clarity, efficiency and grace, precisely what needs to be written; no more, no less. Pursuing this goal mercilessly, we eradicated jargon, condensed background material and simplified explanations wherever possible. Moreover, prose economy has enabled us to accommodate diverse learning goals in a single book.

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## A COMPREHENSIVE FRAMEWORK

Each chapter opens with an introduction that sets the tone for chapter coverage. Chapter subjects are expanded and elaborated through copious examples, exercises and case-like presentations that bridge the gap between theory and practice. Each chapter ends with a summary of key points and two kinds of questions—review questions that reinforce important chapter concepts and discussion questions that encourage consideration of ideas that go beyond the text's immediate scope. Lists of suggested readings point students toward additional information sources.

Chapters are organized into eight parts, each of which begins with its own introduction and ends with a short case problem that shows the operation of principles as they occur in the real world—integrated rather than isolated. Part case problems are coordinated so that they can be treated as a continuing case problem throughout the text.

This modular organization enables students to draw the logical connections between and among central concepts of real estate investment analysis and to understand their application in real-life situations.

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## A BOOK OF MANY TEACHING PATHS

One professor's textual irrelevancy is another's necessity. Some emphasize theory; others stress institutions. Some like case analysis; others abhor it. Instructional preferences are often conditioned by the academic department that houses the subject—market research is important here, capital budgeting there; one school accentuates real estate economics, another the federal income tax.

*Investment Analysis for Real Estate Decisions* resolves this dilemma by combining a wide range of material into a comprehensive analytical framework. It offers an accommodating reading path for every instructional preference. For example:

- For a theoretical emphasis, omit Parts Seven and Eight.
- To stress application, omit Chapters 3, 4, 5, 15, 16 and 19.
- Chapter 10 provides sufficient income tax information for most courses; yet, reading all of Part Four will instill a deeper insight into tax law.

To simplify selection of reading assignments, the teaching manual maps several alternative paths. Actual choices will depend on what is to be stressed and on the number of classroom contact hours available. In all cases, the text's organization will prove refreshingly adaptive and the teaching manual surprisingly helpful.

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## RATIONAL ORGANIZATION

Each part of the text covers a subject fundamental to informed investment decision making. To guide students in their study, each part begins with a brief explanation of purpose:

- Part One sets the stage by explaining fundamental terms and concepts used throughout the text. It describes a widely accepted analytical framework and introduces relevant basic economic ideas.
- Part Two emphasizes the essential nature of market research and introduces key marketing concepts.
- Part Three shows how market research is used to estimate future benefits from ownership and provides essential information about mortgage financing.

- Part Four is a protracted discussion of the income tax as it applies to real estate investment decisions.
- Part Five explains ratio analysis and presents an extended lesson on compound interest and discount. It includes an appendix on financial calculations and a separate chapter on computerized analysis.
- Part Six introduces traditional and modern risk analysis. The chapters permit selective degrees of immersion in this complex yet essential subject.
- Part Seven illustrates discounted cash-flow analysis to help make investment decisions regarding several major categories of real estate.
- Part Eight is a unique section on real estate as a security. A reviewer describes this as the most thoroughly researched presentation of the subject that he has seen.

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## **A COMPREHENSIVE TEACHING PACKAGE**

To make life a little easier, a complementary package of teaching aids is available. It includes:

- a comprehensive instructor's manual with detailed lecture notes,
- answers for end-of-chapter review questions,
- notes on utilizing the open-ended discussion questions at the end of each chapter,
- solutions for end-of-part case problems,
- transparency masters for all text illustrations and
- an extensive test bank.

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## **ACKNOWLEDGMENTS**

A veritable who's who of real estate educators collaborated to assure the quality and usefulness of *Investment Analysis for Real Estate Decisions*. The first edition was reviewed by Joseph Albert, then at North Texas State University; James H. Boykin, Virginia Commonwealth University; Roger Cannaday, University of Illinois, Urbana-Champaign; William Goolsby, University of Tennessee; Robert Mendelson, Southern Illinois University, Edwardsville; Wade Ragas, University of New Orleans; and James Vernor, Georgia State University. Reviewers for the second edition were Jaime R. Alvayay, *North Texas State University*; Roger E. Cannaday, *University of Illinois at Urbana-Champaign*; Charles P. Edmonds III, *Auburn University*; Charles F. Floyd, *University of Georgia*; Hans R. Isakson, *University of Texas at Arlington*; and Leonard Zumpano, *University of Alabama*. Their comments were thoughtful, incisive and valuable.

Financial assistance from the family of Morris S. Fogelman enabled the authors to spend additional time refining this revised edition. The text's quality is due in substantial part to this extra attention; we gratefully acknowledge the Fogelman family's role in its success.

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