

Real Estate Finance and Investments



Brueggeman / Fisher

TENTH EDITION

REAL ESTATE FINANCE AND INVESTMENTS

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PREFACE

Much has happened in the world of real estate finance and investments since the last edition of this book was published. This is especially true in terms of the evolution of public market vehicles for financing and investing in commercial real estate such as commercial mortgage-backed securities (CMBS) and real estate investment trusts (REITs). The revisions we have made in this edition of the book reflect the need for students to expand their understanding of these topics when preparing for a career in the field of real estate.

We have also strived to make the book more “user friendly” for students. For example, we have added boxes showing calculator solutions to many of the problems. Traditional table solutions are also shown in the early chapters to aid in the understanding of the time-value-of-money concepts being illustrated. To help relate the concepts and techniques discussed in the book to the “real world,” we have also included short readings and illustrations in many of the chapters that are based on current events in real estate finance and investments. We are also making computer spreadsheets available for instructors to use as they deem appropriate to help students solve many of the end-of-chapter problems in the book.

This book can be used by professionals as well as by academics and students. All of the concepts and techniques in this text are used by professionals. Our goal has always been to help everyone advance their ability to analyze and better understand the institutions and instruments common in real estate markets.

We would like to thank several people who contributed to helping us with the tenth edition revision. Several reviewers including Andrea Heuson, Timothy Riddiough, Abdullah Yavas, Waldo Born, and Martin Weingartner made valuable suggestions. Christopher Cinkoske updated the information on FHA, VA, and conventional loans in Chapter 6. We would also like to thank the following people for their assistance in reviewing the Chapter 6 material: Michael S. Polley, Vice President Loan Servicing, Workingmens Federal Savings Bank; Carolyn Anderson, Chief, Loan Processing, and David A. Polikoff, Assistant Loan Guaranty Officer at the VA Regional Office, Indianapolis, Loan Guaranty Division; and Debbie Groce, Single Family Housing Specialist, U.S. Department of Housing and Urban Development, Indiana State Office. Kerry Weger, JD, reviewed the legal material in Chapter 2. Hans Nordby,

Sherrie Henry, and Mary Zotos helped in the preparation of the manuscript. We have strived to minimize the “bugs” that tend to show up in the first printing of a new edition. We also continue to be indebted to people who have contributed to previous editions, especially the late Henry E. Hoagland, who wrote the first edition of this book, and Leo D. Stone, who participated in several

editions. Finally, we thank all of the adopters of previous editions of the book who, based on their feedback, have made us feel that we have helped them prepare students for a career in real estate.

William B. Brueggeman
Jeffrey D. Fisher

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OVERVIEW OF REAL ESTATE FINANCE

Real estate finance is a field of study that requires an understanding of many important subjects: property law, mortgage underwriting practices, mortgage insurance programs, financial analysis, valuation principles, federal income tax laws, investment analysis, financial institutions, real estate development, and capital markets. This book is intended to provide the reader with a foundation in each of these areas. It is oriented toward the student who has had some exposure to basic finance—and perhaps real estate principles—and desires a more advanced treatment of the subject. The emphasis of the book is real estate financial analysis. However, at various points in the text we give descriptions of important institutional characteristics, which complement our analysis with insights into business practice.

This chapter provides an overview of the contents of the book. The subjects addressed throughout form the basis for much of what is needed for professionals who are in or about to enter the field of real estate finance. Although the breadth of coverage may seem to include very diverse topics, these topics contain analytic approaches and methodologies that can be transferred to many different problem areas. Students may find that they have a much better understanding of basic finance after they have learned to apply it to real estate.

Exhibit 1-1 is a flowchart of the organization of the book, its major parts, and the chapters within those parts. The student will obtain the necessary background for each chapter by reading the chapters in numerical order. However, there are other ways to progress through the material, particularly for the more advanced student. For example, a course of study emphasizing real estate finance could proceed from Part II, “Financing Residential Properties,” to Part V, “Real Estate Capital Markets and Securities” with emphasis on mortgage-backed securities. Similarly, a course of study focusing on income property financing and investment could proceed from Part I directly to Part III.

Part IV is important for courses of study that illustrate the differences between the analysis of existing and proposed (construction and land development) projects. Techniques used to evaluate and finance these projects differ significantly. The student