

# [Commercial real estate essay sample](https://assignbuster.com/commercial-real-estate-essay-sample/)

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1. What are the main investment sectors of the commercial real estate market usually considered by institutional investors? Ok, dear student, let start by saying that commercial real state is the property and the Commercial real estate (CRE) is the property, which is used primarily for business purposes. The main investment sectors are CRE market include restaurants, office towers, office parks, gas stations, malls, and convenience stores, to mention just a few. Please, you need to understand here that the CRE will be always among the three majors aspects of real state and the business, which occupy CRE usually rent the space. In addition, another key aspect for you to understand is the fact that Investors usually own the buildings and collect rent from all businesses that operate there. There are four major types of CRE leases, each necessitating distinct responsibility levels from the tenants and landlords.

2. If this fund wishes to allocate $200-400m to this sector, is this sufficient to build a diversified portfolio of commercial buildings? The fundamentals of building a commercial portfolio are startlingly easy. Working out one’s own style of investment and then making sure that their diversified combination of asset or property classes mirror their own risk-reward trade-off. If the fund wishes to embrace greater levels of risk and would not need the cash for some time, the fund managers should think about tilting their portfolio towards shares. When they only have a limited time horizon for what they want to attain from their venture, they should give more impact to money and bonds. And they should not get very carried away: they should keep the underlying finances in their portfolio cheap and simple, and should not overtrade. As such, the $200-400m allocation would be adequate for building a diversified portfolio of commercial building.

3. Advise the fund on the main advantages and disadvantages of investing in REITs as opposed to buying commercial real estate buildings directly. REITs are transacted like stocks in the marketplace. They refer to assortments of real-estate-related assets. They may include commercial, agricultural, residential or industrial real estates. Some REITs comprise mortgages, storage units, malls, or a combination of investments. Including real estate ventures in a portfolio may provide extra diversification from the normal combination of stocks, mutual funds, and bonds. To add real estates, investors may buy into REITs or they may directly purchase real estates, like buildings or homes, or land. All ways of investing have their advantages and disadvantages. Dear student please keep it simple as much as you can in order to develop this answer. Here you can see pretty clear how this system works. In considering the main advantage of REITs as opposed to purchasing a commercial real estate directly, we notice that shares of REITs trade on the stock exchange like all other stocks.

This attribute makes it simple for investors to add real estates through purchasing shares in one or many REITs. REITs are professionally managed companies that own portfolios of investment assets. Investing in REIT enables investors to pick definite areas of the real estate marketplaces, like apartment buildings, commercial properties, shopping centers or medical structures. REIT shares usually forfeit dividends with yields more than the ideal stock shares. Consequently, taking into consideration the disadvantages of REITs as opposed to purchasing a commercial real estate directly, it is observed that the greatest adverse to REIT investment is that the REIT shares’ value frequently follow the tendency of the remainder of the stock marketplace. This tends to relatively negate the benefits of diversification of venturing in real estate. The dividends received on the shares of REIT are also fully taxable. Dividends from normal firms are taxed at a reduced rate, thus a section of the greater yield from REIT shares may be cancelled by tax regulations. REITs are also needed to pay at least 90% of the earnings as dividend to reduce the elasticity of REIT management.

4. The endowment fund is already heavily invested in US equities, provide evidence on the average return, variance and co-variances of direct real estate with REITs, equities and bonds. With a heavy investment in U. S. equities, when the shared risk premium of stocks and REITs is 1. 5 percent, we find the investors with a risk dislike of between one and six are well off investing almost completely in REITs, short-selling the bond and capitalizing so less in stocks. The endowment fund may benefit in a similar way even if the risk premium of stock and REITs is set at 2. 0 percent with risk dislike to between one and nine. However, if the risk premium of stock and REITs is set at 2. 5 percent, the fund’s risk dislike factor is unnecessary, and it hints investors must short-sell the bond and venture more in REITs.

The marginal impact of variations in portfolio returns on the optimum portfolio weights in the REITs is seen to have a sharp decrease when risk dislike is raised. The effect of that variation in the REIT-Stock relation, however, is non-existent since the optimum weight in REITs is raised. Additionally, there is less obvious change if the risk dislike is raised. Therefore, the variation of weights in REITs inside the optimum portfolio is more substantial than the relation between stock and REITs performance. Also, the outcome show that the endowment fund should consider how to optimize their return using different risk aversion levels and not through using the relation between REITs and stock. Estimates forecast variances, covariance, and means, which are used in constructing ex-ante conditional mean-variance efficient portfolio and for studying the ex-post return features of such portfolios.

5. Provide your assessment of the outlook for the commercial real estate market relative to other classes. In the assessment of the outlook for the commercial real estate marketplace relative to several other classes, it is clear that the speed of CRE industry’s rescue is probable to regulate this year, posing continuous difficulties of industry managers to realign business simulations, adjust to rising regulation and transform for growth. However, a concentration on business innovation – remodeling current space to meet the new demands of tents, for instance – and fund transformation, like aligning the capabilities of finance with the objectives of leadership, may assist firms invest on emerging CRE marketplace drives. To enhance on the normal development for the previous year proposed by present basics of CRE, the boards and management of CRE should consider changing the manner they conduct business to satisfy the evolving tenant and customer necessities that are essentially transforming the sector. Furthermore, as the CRE industry enters a modest development stage and several prior balance sheet issues have been handled, the role of CFO is becoming progressively important to assisting drive performance.