

# Book Reviews

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This section contains reviews on textbooks, professional books and other scholarly books that are appropriate to real estate. Areas of interest include, but are not limited to, mortgage markets, real estate investments, real estate finance, asset and property management, real estate development, corporate real estate, valuation and other areas related to real estate. If you have an interest in reviewing a particular book or if you wish to be considered as a reviewer, please contact James Frew.

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***Real Estate Principles for the New Economy.* Norman G. Miller and David M. Geltner, 2005, 504 pages, South-Western (Thompson Learning).**

Reviewed by: Susanne E. Cannon, DePaul University.

Anyone who has ever taught an introductory real estate class has struggled with its circularity and with the massive amount of content that could (should?) be taught. Where to start the course is always a puzzle. Should the students know something about law before they learn about brokerage? Should they learn discounted cash flow analysis before they learn market analysis? Is it better to teach appraisal before finance, or the other way around? And, does property management fit in the course at all? Or housing policy?

The newly released Miller and Geltner sequel to their graduate text, *Commercial Real Estate Analysis and Investment* approaches these two problems creatively. *Real Estate Principles for the New Economy*, released in 2004 with a 2005 copyright, has been slimmed down substantially from its parent by providing less coverage of institutional investment (one-third of the Geltner-Miller book) and by including ten additional chapters, approximately 400 additional pages of material, on a CD-ROM inserted in the back of the book. This new book retains some of the financial economic flavor of the first text but includes housing market analysis and residential finance, topics omitted in the prior book. Overall the emphasis of the book is on market analysis and financial analysis; it is designed to be the textbook for the first real estate course taken by third- or fourth-year undergraduate students who have some economics background. It could also be the basic text for an introductory MBA course.

The hard copy portion of the book is divided into five parts as follows:

1. Introduction to Real Estate Markets
2. Focusing on Property Markets by Type
3. Legal and Regulatory Environments
4. Real Estate Financial and Investment Analysis
5. Real Estate Brokerage, Leasing, Development and Trends

A discussion of each part follows.

Part 1 “Introduction to Real Estate Markets” uses career path discussions to explain how broadly one can view the real estate industry and how many specializations there are for professionals. It highlights the free website [www.real-jobs.com](http://www.real-jobs.com) where students can post resumes. An optional supplement from the CD-ROM contains interviews with professionals such as the head of real estate for Proctor & Gamble. The two chapters that follow review the economics of real estate markets, how cities grow and how values are influenced by growth, transport systems and regulation.

Part 2 “Focusing on Property Markets by Type” covers three property types: housing, office and industrial. The largest chapter, on housing, covers single family affordability, buy versus rent decisions and the dynamics of the rental market, showing how demand and supply interact over time to influence vacancy rates, rents, values and changes in supply. An appendix to the housing chapter covers fair housing issues

as well as welfare economics of subsidies and rent control. Excel files on the CD-ROM also provide illustrations of the conversion from rent to a supportable home value and its sensitivity to interest rates. The office and industrial chapters review the demand and supply traits of these markets with some notes on recent trends. Other property types including retail, lodging and convention centers, recreational property, parking lots, airports and mixed use are on the CD-ROM.

Part 3 “Legal and Regulatory Environment” includes the traditional legal material: ownership interests, contracts, transferring ownership, the legal aspect of leases, land use controls and property taxation. What is unique in this section is the inclusion of an entire chapter devoted to negotiation, ethics and risk management based on contracting strategies. An appendix for Part 3 includes an abbreviated and simplified interpretation of the NAR codes of conduct.

Part 4 “Real Estate Financial and Investment Analysis” is the largest section of the text, with 11 separate chapters. As in the first Geltner-Miller book, it starts with an overview of investment concepts that provide a back drop for the later discussion of valuation, highest and best use, value and cost, the market approach to value (including automated valuation models) and then cash flow analysis. Following cash flow analysis, the discounted cash flow discussion incorporates a powerful cash flow spreadsheet file on the CD. A separate chapter covers risk analysis, the effects of leverage, and due diligence, providing cautionary tales for the neophyte investor or analyst who may have seen too many get-rich-quick-with-no-money-down late night TV shows. Real estate finance concepts, terms, instruments and separate chapters on residential and commercial finance conclude the section. There is a brief introduction to real estate investments trusts and institutional investment.

Part 5 “Real Estate Brokerage, Leasing, Development and Trends” includes a chapter on residential brokerage, with an additional housing market analysis discussion of topics like pricing and time-on-the-market, agency representation issues, listing contracts and commission rates, and how the Internet is influencing the industry. The chapter on commercial brokerage places significant emphasis on leasing and lease analysis. Again, Excel tools are provided that allows analysis of leases that impact the lease terms on value and risk. The real estate development chapter includes Graaskamp’s front door and back door financial feasibility tests, along with a discussion of current property trends: from green design and sustainable development to terrorism and security concerns affecting property design and management. Excel files on the CD-ROM provide support tools, and a supplemental chapter includes discussion of construction and development finance.

The extensive supplementary material on the Student CD-ROM includes:

- The business of appraisal, covering such topics as USPAP, designations, and regulation
- Property and asset management
- Corporate real estate

- GIS and site analysis
- Answers to end-of-chapter questions
- Abbreviated PowerPoint files for every text chapter
- Several Excel files

On the Instructor Resource CD-ROM there are 50 PowerPoint files, 24 that match the abbreviated student versions, and 24 comprehensive files (one for each chapter, as well as some alternative material for topics such as risk analysis). The PowerPoint files include some animation and some images. The CD also features exam banks by chapter and a set of Jeopardy!-like games, one for each chapter, called “Real Estate Quizmaster,” which includes questions and answers for chapter review.

The authors have designed a textbook that uses twenty-first century technology to solve the problems faced by most faculty member adopters. The text provides a portable reference tool and the CD-ROM provides flexibility, more detailed reference material and tools to modify the course for those with more specialized interests. This flexibility is likely to be an attractive feature for faculty who wish to customize the course without requiring a massive textbook, much of which cannot be taught within one term. Web and data resources have been well integrated throughout the text with side bars and notes, as well as in a special resource section at the end of the text organized by topic. It is readable without being verbose. On the other hand, its design elements are somewhat distracting, with multiple typeface changes, explanatory boxes with various graphics and headers set in grey-scale backgrounds, numbered exhibits and tables and the occasional un-numbered explanatory box.

The market for this text has been identified as undergraduates taking a first course in real estate. With a few exceptions, it provides very rich coverage of both the basic “principles” material and extends the discussion into contemporary real estate issues, too. It includes a discussion of the impact of technology on real estate, much more coverage of commercial leasing and brokerage than is typical, and a chapter on risk analysis, leverage and due diligence. Surprisingly, it provides very little material on the secondary mortgage market for residential finance and an unconventional look at real estate appraisal, but has a chapter on commercial mortgage-backed securities. This book is not just a principles text updated. It is a new examination of what constitutes the undergraduate body of knowledge, set in a new and flexible framework. It is likely to be well received and may set a new standard for providing resources for both learner and educator.

***Professional Real Estate Development: The ULI Guide to the Business. Second Edition. Richard B. Peiser and Anne B. Frej, 2003, 397 pages, Urban Land Institute.***

Reviewed by: Charles C. Carter, Marylhurst University.

The second edition of this ULI-sponsored book appeared in print last year. The first (1992) edition’s authors were Richard B. Peiser and Dean Schwanke and the

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acknowledgments and foreword to this second edition are both by Richard B. Peiser. The book is essentially a practical guide on developing the five major types of real estate: land, residential, office, industrial and retail.

The authors' progress through the chapters is logical and the later chapters do a very good job of building on the basics presented in the earlier chapters. After two relatively short chapters, entitled "Introduction" and "Organizing for Development," the third and fourth chapters, "Land Development" and "Multifamily Residential Development," respectively, set out the foundations of real estate development. The third chapter covers the subdivision process by which raw land is transformed into parcels ready for building. The fourth covers multifamily residential development but includes a step-by-step analysis of topics common to all forms of development. The remainder of the book covers office, industrial and retail development and ends with a chapter entitled "Trends and Issues" that examines the industry.

### **Organization and Readability**

As is common with ULI publications, the book contains occasional text boxes or short topics alongside the main text meant to elucidate or provide historical insight. All the text boxes are relevant and promote a fuller understanding of the topics discussed. Someone relatively unfamiliar with real estate development would undoubtedly be lost without the diagrams, photos, charts and extra text. Occasionally the text boxes are used to introduce developers or development companies or specific development projects, giving the reader a sense of real-life applications.

One potential problem with any development book is that there are many topics and details must be left out. This results in many lists scattered throughout the text that the novice might view as uninteresting or unnecessary. For example, paging through Chapter four the reader finds a list of residential product types, a list of stages of income property analysis, a list of factors to be considered in delineating the target market area for a proposed development, and so on. The authors' many reference notes at the end of each chapter make it plain that the lists are meant to summarize broad topic areas that could take up entire courses, such as real estate finance and real estate market analysis.

The discounted cash flow and investor returns analyses in Chapters three and four are excellent. Less extensive financial statements and charts are set out in Chapters five and six. The financial analyses are not relegated to appendices but set out up front in the text, which I think is a good idea. (Appendices include legal forms, *e.g.*, "Sample Letter of Intent for an Industrial Property Purchase" and "Sample Commitment for an Office Building Construction Loan.") The authors also point out that the financial analyses in Chapters three and four can be accessed through ULI's website and additional materials providing more detail are available through the Harvard Design School website. Calculations and measures of return are very adequate, with coverage of un-leveraged IRR, both before and after tax IRR, return to investors and simpler return measures. (Number crunchers should be satisfied.)

The book succeeds in doing what a book on development should do, that is, give the reader a feel for how real estate development is conducted and all the problems that must be considered. And it does this smoothly and gracefully. Of course, a good understanding of how development is done requires some knowledge of real estate law, finance, market analysis and how real estate professionals conduct their business. A good undergraduate principles course is all that should be needed for students to make good use of the book.

### **Topic and Content Coverage**

Treatment of each subject is thorough. The authors are up-to-date in their methods and on their coverage. Chapter five on retail development was particularly good. At the beginning of the chapter, the authors set out their basis of discussion: the shopping center in all its forms (neighborhood, community, regional, etc.). They also make it plain that for retail development, market analysis and leasing are the important concentration areas. Pricing store space and tenant placement are also extremely important. A 1998 example of the Olney Village Mart (an 180,000 square foot community shopping center in Montgomery County, Maryland) demonstrates how retail market analysis is used in the feasibility analysis.

The text discusses the “big topics,” too. Discussions in Chapters one, two and eight show they are tuned into important contemporary practical and public policy issues. Discussions throughout the book show they have a lot of first-hand experience. Several examples are given of good and bad experiences of the Peiser Corporation in Texas.

The authors have no qualms about “telling it like it is.” In the introductory chapter, they admit that development can sometimes be “extremely frustrating.” Also, beginning developers must usually accept greater risk since they lack the bargaining position to transfer risk to others. The most difficult development project is the first one.

They offer some great pearls of wisdom. One is their description of development as an iterative process where later iterations bring more precise information until enough confidence is achieved to make a go/no go decision. Another is that “lawsuits are losers for everyone.” Other pearls are borrowed from the late James A. Graaskamp.

If there is a main theme to the book, it is that real estate development is much more challenging today than it was thirty years ago. In the 1970s, development was relatively straightforward. Changes in the real estate industry and how they effect development are well documented. They include: (1) industry restructuring brought on by the real estate crash of the late 1980s and early 1990s; (2) the trend towards paying for infrastructure through impact fees and exactions; and (3) the continuing erosion of development rights.

The days are gone when developers expected to finish a major project with the same square footage and amenities as originally planned. Also gone are the days when

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developers did not think in terms of public relations campaigns to counter neighborhood sentiments about development. In Chapter five, for instance, the authors relate two separate experiences of public relations campaigns regarding retail development. One case involved merely expanding a grocery store in Washington, D.C. while the other involved years of wrangling over development of a neighborhood center in metropolitan Detroit.

The last chapter eloquently discusses the biggest challenges facing contemporary developers: How do developers (1) accommodate the trend towards “smart growth,” (2) alleviate public concerns regarding environmental issues, and (3) plan projects to better deal with transportation and congestion problems?

The term smart growth means different things to different people and different things depending on the context. Whether synonymous with no growth, or as a cure-all for urban sprawl, the thing the developer must remember is that today people generally want to be actively involved in local land use matters. This public interest should not be taken lightly.

## **Conclusion**

*Professional Real Estate Development* is an excellent primary or supplementary reading for residential or commercial development courses. A review of recent syllabuses for development classes shows that it is in fact being used as both primary and supplementary reading for these classes. If used for upper level courses, another text like Bruggeman and Fisher or Geltner and Miller should also be used for a thorough treatment of real estate financial analysis.