

# Book Reviews

## Editor

**Thomas Musil**

University of St. Thomas  
College of Business  
1000 LaSalle Avenue  
Minneapolis, MN 55403

651-962-4263 (Phone)

651-962-4125 (Fax)

tamusil@stthomas.edu

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 book, please contact Thomas Musil.

## Associate Editors

**Susanne E. Cannon**

*DePaul University*

**Charles C. Carter**

*Florida Atlantic University*

**Thomas M. Springer**

*Clemson University*



***The Handbook of Commercial Real Estate Investing***, John McMahan, 393 pages, McGraw-Hill, 2006.

Reviewed by: William Croteau, PricewaterhouseCoopers

John McMahan's *The Handbook of Commercial Real Estate Investing* sets out with a lofty goal to offer “. . . a comprehensive ‘best practices’ approach to commercial real estate investments, designed to minimize adverse consequences and standardize the real estate investment process.” McMahan's suggested best practice methods and analysis are supported by his extensive career both in real estate investment advisory and consulting (including chairman of two public REITs), and in academics as a senior lecturer at the Stanford Graduate School of Business and adjunct faculty at the Haas School of Business, University of California at Berkeley.

The book is not a real estate finance or economic textbook; it does not compete with, or cover the same specific topics as Brueggeman and Fisher's or Miller and Geltner's textbooks. Rather, the book clearly emphasizes the investment process, as opposed to the development process, which was the focus of McMahan's previous book on development. Two of the major distinguishing features of the book are its emphasis on industry “best practices” (Sections II and III) and management of real estate organizations (Section IV)—unique topics generally not covered in undergraduate or graduate textbooks.

There are three target audiences for the book. The first is graduate students in real estate-oriented MBA and MS in real estate programs, and graduate students in construction management, finance, architecture, and planning degree programs. Second, the book is also appropriate as a supplement for upper level undergraduate courses with students who have completed typical real estate finance, law, and management courses. The book's practical and applied nature is excellent reading and education for students seeking independent study and research, or for preparing students for internships with real estate firms. Furthermore, as real estate programs and universities increasingly engage their students in regional and national real estate competitions such as Hines' or NAIOP's, students would be well served to understand the general business real estate principles in the book. Third, the book is an appropriate resource for training real estate industry professionals, whether individual firms with new hires or staff early in their career development, or for national and international real estate associations who continually search for new ideas for workshops, seminars, or continued education courses.

The absence of complex models and equations generally included in real estate textbooks facilitates a focus on the contents of the book—the practical applications and recommended industry standards. The book is organized around four subject areas:

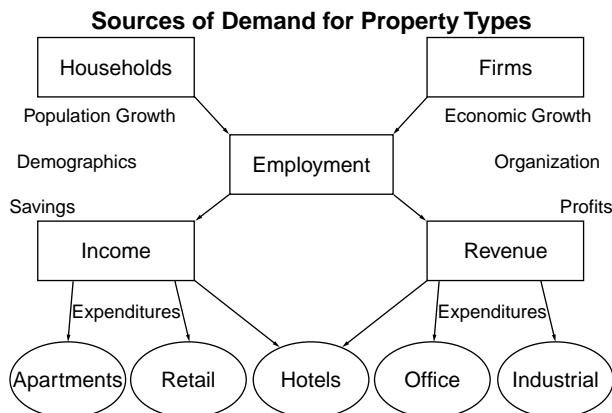
- I. Real estate investment process
- II. Transaction management
- III. Asset management
- IV. Enterprise management

Although the book can be used as a stand-alone course book; there is additional value if used to supplement standard textbooks for courses such as real estate finance, real estate development, or appraisal. For example, the chapters in Part I provide a basic overview of market demand drivers, property type characteristics, and even a discussion of Mueller's real estate cycle model that expands a discounted cash flow analysis. The book has clear exhibits (see Exhibit 1 for sample) and tables, and the knowledge presented can transform a two-dimensional spreadsheet analysis into an applied, 'real-life' example. Part II's chapters related to transaction management illustrate a standard due diligence process, complete with industry forms and examples, while Part III's asset management chapters cover essential subject areas in the institutional real estate investment world. Part IV's enterprise management chapters are the most distinctive chapters in the book, addressing such topics as real estate leadership, market positioning, risks, and corporate governance. The following questions illustrate the major topics in the four general areas and provide evidence that the book is suitable in the academic and industry environment.

- *Part I:* How is value created with real estate (and not simply due to changing a discount rate or cap rate in a spreadsheet)?
- *Part II:* What are standard practices in transaction management including due diligence process?
- *Part III:* How does asset management integrate with investments, or the role with tenant relations?
- *Part IV:* Why is leadership in real estate so difficult? How do real estate firms manage risks including portfolio and enterprise risks? What are standard corporate governance practices for real estate firms in a post-Enron environment?

The globalization of the real estate industry implies that real estate capital, expertise, management, teaching and education, ownership, and tenants are global. In such an

### Exhibit 1 Sample Chart



era, the book's best practices and real estate investment standards may not apply in all circumstances, nor are they a panacea for all cultures and regions in the world. However, this is a start. The mobility of real estate capital across the globe, and the growth of new real estate investment funds and financial structures, results in new opportunities, questions, and solutions for real estate professionals.

There are new challenges facing the real estate industry, challenges that require more than just quantitative skills and knowledge of SEC and AICPA regulations. The book discusses such subject areas that both introduce graduate and undergraduate students to the realities of the real estate business world, and re-introduce industry professionals to topics in a refreshing manner.

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***Real Estate Principles***, Charles F. Floyd and Marcus T. Allen, 443 pages, Eighth Edition, Dearborn Real Estate Education, 2005.

Reviewed by: Charles Carter, Florida Atlantic University

I recently did a review of a real estate principles book for this journal entitled *Modern Real Estate Practice*, also published by Dearborn Real Estate Education, by Galaty, Allaway, and Kyle. Since then I have become familiar with the eighth edition of this book and am using it in my undergraduate principles classes at Florida Atlantic University. The sixth edition was reviewed in the *Journal of Real Estate Literature*, 8(1): 75–7 (2000) by Carlos Slawson, but I am told by the book review editor that a new review would be welcomed.

I like this book better, but that may have something to do with the type of audience for which it was meant. The sixth edition is not as rigorous academically, more meant for those studying for their sales associate or broker's licenses. I was curious as to why exactly the Floyd and Allen edition seems to meet my needs better and I thought a formal book review would help me in this regard. It should be revealed from the onset that one of the authors (Marcus Allen) is a colleague of mine at Florida Atlantic University.

### **Organization and Readability**

The first thing I noticed was that the book is not as lengthy as other real estate principles books. I am convinced, however, that the book contains all the material that it should. In my previous book review I mentioned the classic principles book by Wurtzbaach and Miles, *Modern Real Estate*, now out of print was 801 pages long and the book by Galaty et al. is 530 pages. My conclusion has to be that Floyd and Allen have done an excellent job of condensing the essential material.

I do not have a copy of the seventh edition but the review by Carlos Slawson sets out the organization of the sixth edition. The seventh edition contains five 'parts' after

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the Introduction as follows: I. Real Estate Legal Analysis, II. Real Estate Market Analysis, III. Real Estate Service Industries, IV. Real Estate Finance and Investment Analysis, and V. Special Topics. The sixth edition started with Part II (market analysis) and divided Part IV (finance and investment) into two separate parts, one for finance and one for investment. An extra part in the earlier edition titled “Real Estate Transactions” has evidently been absorbed into other parts. There are twenty chapters altogether.

I find that starting with the chapters on real estate law and proceeding the way it does is the best way to teach the material. This follows the general sequence of topics that I am used to. The chapters requiring calculations are towards the end of the book, in Chapters 14, 15, and 16. Chapters 17 and 18, covering residential and commercial land development, are best left until the end.

Instructors are given access to a website containing files that provide the following for each of the 20 chapters: outlines (both ordinary and PowerPoint formatted with illustrations), answers to the study exercises in the backs of each chapter, many multiple-choice and true/false questions (together with answer keys), suitable for quizzes, midterms, and finals, and some other matter. Students receive a Student Study Guide disk with chapter summaries and six excellent case studies for purposes of class discussion. The case studies have an audio component so you do not have to read the material. Well-thought-out issues covering two or three chapters per case study are brought to the attention of the students through the use of ten multiple choice questions at the end of each case study.

### **Topic and Content Coverage**

Every chapter contains text boxes or short topics that supplement the material and do an excellent job of illustrating points made throughout the text. Some of these are humorous and all will help students immeasurably to fully grasp the material presented. My favorites are “The Last Change Ditch” and “The Case of the Disappearing Island.” The former gives an example of how prior appropriation water rights are handled near Reno, Nevada, and the latter tells a story about how title was determined for an island in the Mississippi River that was forever changing its shape and location.

These text boxes (each titled Real Estate Today) are contemporary and up-to-date. How better to keep students’ interest than to make their reading relevant? The authors’ wide variety of experiences and scope of knowledge are made plain by these forty-two features. The book is also full of diagrams, figures, and sample documents that greatly assist with learning. About everything you would expect to see is there—from illustrations of floor-area ratios used in zoning to the supply/demand equilibrium model to illustrate market changes.

Two things I did not like about the sixth edition are: (1) an appendix that was too simplistic for any college students; and (2) lack of a pictorial representation of the angles in a circle for determining the angles in a metes and bounds legal description.

The eighth edition does not insult a college student's intelligence and the very diagram of angles in a circle I had in mind is plainly set out on page 26 in Figure 2.2.

Slawson's review lamented the fact that the sixth edition lacked amortization tables. Those have been added in the eighth edition. NAR's Code of Ethics and Standards of Practice have been taken out. Excerpts from the Uniform Standards of Professional Practice (USPAP) are set out in the chapter on appraisal. I find that references to the Appraisal Foundation and to USPAP are a necessary part of teaching the basics of appraisal. Key strokes for both the HP calculators and Microsoft Excel are set out in the finance chapters, as well as the formulas for the six functions of a dollar. I find these to be very helpful for students.

### **Conclusion**

This latest edition of *Real Estate Principles* is perfect for college classes taught at business schools. A review of recent syllabuses for principles classes shows that it is in fact being used as the primary reading for a great many of these classes. Perhaps sophomore standing should be attained before taking the class. I do not think there is any other text (still in print) that matches this one.

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