**University of Southern California John Menne**

**Price School of Public Policy Spring 2018**

**Master of Real Estate Development RED546:**

**Applications of Real Estate Finance**

**To Problems of Development**

• **COURSE OVERVIEW**

This course is designed to facilitate mastery of the core skills required of real estate professionals, be they developers, financiers, brokers, or investment managers. Each position requires the ability to think critically about valuation and the elements used in its construction. This class helps develop this faculty by exercising the student’s analytical abilities in a number of different contexts. These include acquisition, development and financing of investment real estate, asset management, lease analysis, and valuation of distressed properties. The course will also explore various capitalization structures, risk analysis, and the key terms of debt and equity transactions. The course is appropriate for students interested in real estate with strong finance skills and a desire to broaden their exposure to some of the unique aspects that drive the value of real estate.

• **COURSE ORGANIZATION**

The course is a combination of lecture, cases, and guest speakers. Lectures are intended to prepare students to think critically and creatively about issues found in the cases. The cases have been selected to provide students with a broad array of advanced real estate topics and to force them to integrate lecture material with their fundamental skills in a “real world” setting. Guest speakers will play two roles: first, they will provide context for class material and current information about a variety of markets and product types; second, they will assist in running discussion related to individual cases (typically cases in which they had material participation). Students are expected to prepare every case for discussion. Assignments include market analyses, case questions, case write-ups, and case presentation to a mock Investment Committee. This class will end one week earlier than normal in order for the MREDs to take their comprehensive exam the following week.

Grading is as follows:

Market analyses/case prep. 10%

Case write-ups 60%

Case presentation(s) 15%

Participation 15%

Total 100%

Market analyses are exercises aimed at helping students become familiar with publicly available data that can be used to refine judgments required in the cases. Write-ups will be required of all cases. Write ups may be individual or group in nature, with a scope that may vary depending on the case specifics. Depending on the progress of the class there may be a final case that may be more complex. Students will be called upon regularly in class to discuss cases assigned for preparation. The participation grade will be based on the students’ ability to contribute positively to class discussion.

• **REFERENCES, PERIODICALS AND WEB SITES**

Students should have a complete working knowledge of the material in Breuggeman and Fisher, Real Estate Finance and Investments or the equivalent. There are many real estate finance texts: Geltner & Miller, Jacobus, and Linnemann are several good choices. Very simply you are expected to know the basics of real estate finance prior to starting this class. Course readings will be posted on the class Blackboard site as necessary. Students should be receiving both Commercial Mortgage Alert and Real Estate Alert. You should use both to stay abreast of happenings in the larger real estate world and use them as an opportunity to test your command of the language of real estate and the underlying logic. There are many good sources out there, feel free to make suggestions to the class for more.

• **ARGUS**

You will need to obtain an academic version of Argus. Personal versions of ARGUS Financial Software are available for sale to individual students for use during the course. It is strongly recommended that the software be purchased as soon as possible. The software will be used to analyze cases during the course and is widely used in the real estate community — familiarity with the program will ease analysis of the cases and be a skill that may help in future job placement. The cost (last year: $99.00) is a bargain relative to the retail cost of the software and includes a manual. The software (and license) expires at the end of the school year (August). I will circulate instructions on obtaining Argus.

• **OFFICE HOURS**

Preliminary office hours are Tuesday from 5:00 to 6:00, Thursday from 1:00 to 2:00 PM, and by appointment as needed. Please e-mail me at johndmenne@gmail.com if you cannot make it to scheduled office hours.

• **CLASS MEETINGS**

Below is the tentative list of topics and an approximate schedule for the semester. We will adjust as we see fit, as there are many ways to exercise the skills that this class should develop. We will discuss and revisit both the topics and schedule throughout the semester.

**Class Lectures**

1. Week 1 – Student Introductions; Discuss Class Objectives; Discuss Winter Comp; Introduction to Investment Memos and Investment Committees
2. Week 2 – Case #1: Challenges/Issues/Risks/Options of Entitlements.
3. Week 3 – Case #1 presentations; Feedback by JM. Discuss options to finance real estate. Capital Stacks; Various Sources; Risk/return analysis.
4. Week 4 – Discussion on Construction Loans and Permanent Loans - Terms, sources, risks, issues, review a termsheet. Develop modeling exercises.
5. Week 5 – Equity Discussion - How to narrow your choices based on Developer objectives, and modeling most likely scenarios; Risk/Return Analysis
6. Week 6 – Case #2: Choosing the best Capital Structure given the project’s and owner’s risk profile
7. Week 7 – Case #2 Presentations; Feedback. Finish discussion on capital structures.
8. Week 8 – Case #3: Suburban redevelopment, interacting with the community, and obtaining city participation to maximize project viability
9. Week 9 – Case #3 Presentations; Feedback.
10. Week 10 - Spring Break
11. Week 11 – Case #4: Case topic TBD. Jeff Dritley discussion and Q&A
12. Week 12 – Case #4 Presentations; Feedback. Rob Jernigan discussion on Disruptions in Real Estate.
13. Week 13 – Comp Prep: Statics; Land A&D Loans, Construction Loans and modeling
14. Week 14 – Comp Prep: Strategy Section
15. Week 15 – Review key points from the semester and answer final student questions

• **NOTE ON DISABILITY**

Any student requesting academic accommodations based on a disability is required to register with Disability Services and Programs (DSP) each semester. A letter of verification for approved accommodations can be obtained from DSP. Please be sure the letter is delivered to me as early in the semester as possible. DSP is located in STU 301 and is open 8:30 a.m. to 5:00 p.m., Monday through Friday. The phone number for DSP is (213) 740-0776.

• **NOTE ON ACADEMIC RESPONSIBILITY**

Students, faculty, and administrative officials at the University of Southern California, as members of the academic community fulfill a purpose and a responsibility. The University must, therefore, provide an optimal learning environment, and all members of the University community have a responsibility to provide and maintain an atmosphere of free inquiry and expression. The relationship of the individual to this community involves these principles:

Each member has an obligation to respect:

1. The fundamental human rights of others

2. The rights of others based upon the nature of the educational process

3. The rights of the institution

**ACADEMIC DISHONESTY**

The following statements and examples explain specific acts of academic dishonesty.

1. Examination Behavior: Any use of external assistance during an exam is considered academically dishonest unless expressly permitted.

• Communicating in any way with another student during the examination.

• Copying material from another student’s exam.

• Using unauthorized notes, calculators or other devices.

2. Fabrication: Any intentional falsification or invention of data or citation in an academic exercise will be considered a violation of academic integrity.

• Inventing or altering data for a laboratory experiment or field project.

• Resubmitting returned and corrected academic work under the pretense of grader evaluation error, when, in fact, the work has been altered from its original state.

3. Plagiarism: Plagiarism is the theft and subsequent passing off of another’s ideas or words as one’s own. If the words or ideas of another are used, acknowledgment of the original source must be made through recognized referencing practice.

• Direct Quotation: Any use of a direct quotation should be acknowledged by footnote citation and by either quotation marks or appropriate indentation and spacing.

• Paraphrase: If another’s ideas are borrowed in whole or in part and are merely recast in the student’s own words, proper acknowledgment must, nonetheless, be made. A footnote or proper internal citation must follow the paraphrase material.

4. Other Types of Academic Dishonesty:

• Submitting a paper written by another;

• Using a paper or essay in more than one class without the instructor’s express permission;

• Obtaining an advance exam copy without the knowledge or consent of the instructor;

• Changing academic records outside of normal procedures;

• Using another person to complete homework assignment or take-home exam without the knowledge and consent of the instructor.

The above information is taken directly from the Academic Affairs Unit of the Student Senate in conjunction with the Academic Standards Committee.

**APPENDIX A: ACADEMIC DISHONESTY SANCTION GUIDELINES**

**VIOLATION (**assuming first offense**) RECOMMENDED SANCTION**

Copying answers from other students on exam. F for course.

One person allowing another to cheat from F for course for both persons.

his/her exam or assignment.

Possessing or using extra material during F for course.

exam (crib sheets, notes, books, etc.)

Continuing to write after exam has ended. F or zero on exam.

Taking exam from room and later claiming F for course and recommendation for

later that the instructor lost it. further disciplinary action (possible suspension).

Changing answers after exam has been returned. F for course and recommendation for

disciplinary action (possible suspension).

Fraudulent possession of exam prior to administration F for course, recommendation for suspension.

to administration.

Obtaining a copy of an exam or answer Suspension or expulsion from the

key prior to administration. University; F for course.

Having someone else take an exam for oneself. Suspension or expulsion from the University for both students; F for course.

Plagiarism. F for the course.

Submission of purchased term papers F for the course and recommendation

or papers done by others. for further disciplinary action (possible suspension)

Submission of the same term papers to F for both courses.

more than one instructor where no previous

approval has been given.

Unauthorized collaboration on an assignment. F for the course for both students.

Documentary falsification (e.g., petitions and Suspension or expulsion from the supporting materials medical documentation). university; F for specific course.

Plagiarism in a graduate thesis or dissertation. Expulsion from the university when discovered prior to graduation; revocation of degree when discovered subsequent to graduation.

Please refer to Trojan Integrity: A Faculty Desk Reference, for more information on assessing sanctions. You may also consult with members of the Office of Student Judicial Affairs and Community Standards at any point in the process, (213) 740-6666

Note: The Student Conduct Code provides that graduate students who are found responsible for academic integrity violations may be sanctioned more severely than Appendix A suggests.