

University of Southern California
School of Policy, Planning, and Development
RED 542: Finance of Real Estate Development, Fall 2007
Lectures: 3:10-6:00pm, Wednesday in RGL 103

Instructor

Professor Tracey Seslen

Office: ACC 301L

Email: seslen@usc.edu

Voice Mail: 213-740-5796 (emergencies only)

Office Hours: By appointment. I am available on weekends if necessary.

Description

This course is an introduction to the fundamental concepts and analytical methods used in making investment and financing decisions for both commercial and residential real estate. We will focus on real estate valuation, starting with a very basic, stylized model and gradually adding real-world complexity throughout the semester. We will consider investment in both “stabilized” (fully operational) and development projects. The course will be built upon the modern corporate finance and investment curriculum. However, a key objective of this course will be to understand the factors that distinguish real estate from conventional securities investments and the implications of those differences for financial decision-making. This course is also designed to prepare you for upper-division real estate coursework and provide an introduction to Excel modeling skills in a real estate context. As an added bonus toward the end of the semester, we will do an introduction to Argus, a software program commonly used in real estate investment both by potential investors and lenders.

Prerequisites

RED 541 or MBA Core introductory corporate finance or equivalent. Individuals should have a basic understanding of cash flow discounting and present value mathematics. In this course, the student will develop a more solid understanding of such techniques, as applied to real estate issues.

Required Course Materials

- Geltner and Miller: *Commercial Real Estate Analysis & Investments*, 2nd ed. (ISBN# 0-324-30548-6). This text is *required* for the course. Please use caution if thinking of acquiring an international edition. You will be solely responsible for any problems that may arise from using an edition other than the above.
- *Calculator with financial functions*: I recommend the Hewlett Packard 17BII+ and will use this model for all in-class examples. You should bring your calculator to all classes and exams. *You will be extremely disadvantaged if you do not have your calculator for exams.*
- Argus Software, student version. Available from <http://www.therealm.com/>. During the second half of the semester, students will be introduced to this software, a “lease-by-lease” cash-flow analysis package used widely by the real estate industry.
- Access to the *Wall Street Journal*, *LA Business Journal*, or other Real Estate publication. Students should keep abreast of local and national news and trends in the real estate market so that they may more effectively participate in class discussions.

To facilitate a positive classroom experience, it is strongly recommended that you do the readings associated with each lecture prior to coming to class. The required readings will be listed in **boldface** on the syllabus.

Optional Course Materials

- Brueggeman and Fisher: *Real Estate Finance and Investments*, Thirteenth Edition. (ISBN# 0-07-352471-9). This text is *recommended, but not required* for the course. It is a more basic text, but contains excellent information on the real estate development process, which is lacking in the Geltner-Miller text.

Grading Policy

Your grade is made up of the following categories:

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|--|------------|
| • Problem Sets | 10% |
| • Spreadsheet Assignments (2 x 10%) | 20% |
| • Midterm Exam | 35% |
| • Final Project | 35% |

Disputes regarding grades must be submitted in writing (with the original exam/assignment document) within one week of the item being returned to the student. No other means of *initial* communication will be accepted (email, verbal discussion). Everything will be graded on a curve.

Homework

Homework will consist of problem sets and spreadsheet assignments which are designed to give you the opportunity to employ the techniques of valuation and market analysis in a practical context. Problem sets will be based on questions from the Geltner and Miller text, and my own problems, and will be graded on a full-credit/no credit basis, while other assignments will receive numerical or letter grades. To receive full credit, you should have made a reasonable attempt to solve every problem assigned.

All assignments and other materials in electronic form, including any PowerPoint slides presented in class, will be downloadable from the Blackboard website (accessible via <http://blackboard.usc.edu/>).

You are encouraged to form study groups and work on problem sets and other assignments together. Each student must hand in their own problem set, however. Spreadsheet assignments must be handed in as a group of 2 or 3 students. This is a requirement, not a suggestion. ***Anyone turning in a spreadsheet/case assignment as an individual without prior authorization will be penalized one letter grade.***

All homework assignments must be submitted by the end of class the day they are due to receive full credit. You may turn in completed problem sets for half-credit up to one week late. After one week, no credit will be awarded.

Problem sets may be submitted in hard copy or electronically via the Digital Drop Box on the Blackboard site. Spreadsheet assignments should be submitted electronically. Please do not submit homeworks to me as email attachments.

Solution sets will be posted on the Blackboard site.

Exams

You will be directly tested on class material via one mid-term. ***There will be no final exam.*** Example problems and study guides will be distributed near the date of the exam to familiarize you with test formats and expectations.

Final Project

The culminating learning experience of this class will be a project requiring you to seek out an actual real estate investment opportunity in the Los Angeles area, evaluate that opportunity, and present your findings to the class. ***Students will be required to work in groups for this project, size to be determined based on enrollment.*** Further details on acceptable property types, sizes, deliverables, etc. will be discussed later in the semester.

Participation

In regard to participation: *Lectures will take place once a week. For those choosing to physically attend lecture, you should arrive on time and should not leave until class has been dismissed. You should also return promptly at the designated time from any breaks.* While participation in class will not be explicitly graded, it may be used (for physical attendees) to decide cases in which a student's final grade falls on a borderline. Good classroom participation constitutes making a meaningful contribution to the intellectual environment of the classroom. Any disruptive or disrespectful behavior may have a negative impact on your grade.

Communication

I am happy to answer any and all administrative questions by email or in person. I will also answer any yes-or-no questions pertaining to homework assignments via email. Any detailed questions regarding homework assignments or general course material I will answer in office hours, by phone appointment, during class break, or after class, time permitting. I will typically answer email once a day, in the evening. Please send all correspondence to seslen@usc.edu. All non-local students may contact me via email or phone appointment for all types of questions.

Students with Disabilities

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. - 5:00 p.m., Monday through Friday. The phone number for DSP is (213) 740-0776.

Academic Integrity

The use of unauthorized material, plagiarism, communicating with fellow students during an examination, attempting to benefit from the work of another student, allowing another student to benefit from one's own work, and similar behavior that defeats the intent of an examination or other class work is unacceptable. Where a violation has occurred, the student will receive an F in the class and may be subject to disciplinary action at the University level. Examples of violations include (but are not limited to) copying off another student, allowing another student to copy off your paper, using a "cheat sheet" in any form during an exam, and refusing to stop when time is called.

Course Schedule

Week 1: 8/29

Topics: Introduction to the course, the markets for real assets and space, calculator tutorial, the mathematics of real estate finance

Readings: GM Chapters 1 and 8

Week 2: 9/5 (Please bring laptop to class)

Topics: The mathematics of real estate finance (if necessary). Valuation conventions and techniques, pro-forma Analysis, basic Excel tutorial, Introduction to the University View case.

Readings: GM Chapters 10 and 11

Week 3: 9/12

Topics: Fixed-rate mortgages, Adjustable-rate and variable-payment mortgages.

Readings: GM Chapters 16 and 17

Week 4: 9/19

Topics: Introduction to income producing properties, leases and leasehold interests, risk and return.

Readings: GM Chapter 30 and 9

Week 5: 9/26

Topics: Risk and return (cont'd). Financing alternatives (debt vs. equity). Pro-forma analysis II – leveraged analysis. **University View Part II distributed.**

Readings: GM Chapter 13

Week 6: 10/3

Topics: Advanced topics in mortgage financing.

Readings: TBD

Week 7: 10/10

Topics: Advanced topics in mortgage financing (cont'd). Real Options.

Readings: Handouts

Week 8: 10/17

Topics: Real estate taxation; after-tax pro-forma analysis. Discussion of final project.

10/24 -- No class due to Urban Land Institute Meetings in Las Vegas

Week 9: 10/31 – Midterm Exam

Week 10: 11/7

Topics: Introduction to the development process, construction and construction loans, issues in land acquisition and development. **University View part III distributed.**

Final project Proposal Due.

Readings: Handouts

Week 11: 11/14 (Please bring laptop to class)

Topics: **Speaker.** Intro to Argus.

11/21 – NO CLASS, Thanksgiving Holiday.

Week 12: 11/28 (Please bring laptop to class)

Topics: Intermediate Argus Tutorial.

Week 13: 12/5

Final Project Presentations. All turn-ins for final project due in hard copy. **Speaker.**

There will be no final exam for this class.