






COURSE SYLLABUS¹ RED510 REAL ESTATE PRACTICE AND PRINCIPLES

- Term: Fall, 2015
MW, 8:00am-9:50am, August 24, 2015, to December 2, 2015
Final Exam: Wednesday, December 9, 2015, 8:00am-10:00am
- Room: VPD 110
- Instructor: **MARK S. RUFF**
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 @ruffmark
 marksruff
 www.linkedin.com/pub/mark-ruff/19/120/222/
- Office Hrs: By appointment, but best for me ~10:00am to ~12:00pm, Mondays or Wednesdays, if in person. I can also periodically make myself available otherwise via phone or Skype.
- Attendance: I automate the class attendance record keeping function via the Arkaive app. The app is free to students and is available for iPhone or Android. The enrollment code for RED510 this semester is: 8NLX. Be sure to check-in at the beginning of each class. I've set the system to allow a 15-minute check-in grace period. After the first 30 minutes of class, the system will not allow you to check-in. At the end of class, no check-out is required. For helpful YouTube instructional videos on the Arkaive attendance app, including how to check in, visit: www.youtube.com/channel/UCh_HbqnQ-E0LQK7ualGGM6A. For additional information, visit www.Arkaive.com.
- Twitter: It is suggested that you "follow" me as @ruffmark via Twitter is a methodology I employ to communicate in real-time with students (e.g., if I might be running late for a class, or if we need to cancel and reschedule a class due to a professional commitment. Note that this would be rare, but it occasionally happens).
- Quote: *"It is the learning that you do after your school days that really counts. Otherwise, you know only that which everyone else knows."*
--Henry Doherty

¹ Subject to change.

COURSE OBJECTIVES:

To present the fundamental principles of real estate analysis, economics, capital markets, and development decision making. Basic techniques of investment analysis and real estate appraisal will be covered. We will examine the relationships between real estate markets and federal, state and local government policies; the factors that create real estate market cycles, bubbles, and crashes; and the impacts of real estate cycles and capital flows upon regional and national societies. At the conclusion of the course, students will have been exposed to the basic tools needed to make intelligent real estate development and investment decisions.

This course provides an overview of key concepts in real estate development and real estate development feasibility. The main topics initially include a definition of the real estate development process, the key stages in that process, the role of feasibility analysis in that process, a definition of feasibility, and example application of feasibility analysis to commercial and residential development projects. The orientation is toward the analysis of income producing property types. The emphasis is on providing students who have little or no financial analysis background with three key assets:

1. An appreciation of the real estate development process and the critical role played by pro forma financial analysis.
2. A working knowledge of the critical vocabulary and concepts involved in pro forma analysis.
3. A reasonable appreciation of how these concepts inform the real estate development and financing decision making process.

The course is intended more to assure a reasonable understanding of these concepts than to create the ability to perform complex analyses.

Following the introduction to real estate development there will be a more comprehensive review of general concepts so that at the conclusion of the course, students should:

- Understand the basic sequence of real estate development
- Be familiar with the nature of property
- Examine the nature of city development and how it has evolved
- Understand the role of government in regulating land use
- Know what the time value of money means and learn to calculate Net Present Value (NPV) and Internal Rate of Return (IRR)
- Learn to value property and methodologies to do so
- Identify sources of debt and equity for commercial real estate transactions
- Understand the development process and how it is applied to the major product types
- Submit a Final Project which includes both a (1) narrative, and (2) financial analysis of an investment property

REQUIRED TEXTBOOKS:

Real Estate Principles: A Value Approach

David C. Ling and Wayne R. Archer

4th ed., © 2013, McGraw-Hill Irwin

ISBN 978-0-07-337734-6

Professional Real Estate Development: The ULI Guide to the Business

Richard B. Peiser and David Hamilton

3rd ed., © 2012, ULI

ISBN 978-0-87420-163-5

OPTIONAL READING:

(N.B.: You will not be responsible for any material from these texts/books, but they are listed here if you have a thirst for additional knowledge and have an abundance of free time.)

The Geography of Nowhere

James Howard Kunstler

© 1993, Touchstone

ISBN 978-0-671-88825-1 (paperback)

Be sure to check the movie "*The End of Suburbia*" (available at Netflix or YouTube.com which was drawn extensively from Kunstler's book).

Home From Nowhere

James Howard Kunstler

© 1996, Touchstone

ISBN 978-0-684-83737-6 (paperback)

Crabgrass Frontier: The Suburbanization of the United States

Kenneth T. Jackson

© 1985, Oxford University Press

ISBN 978-0-19-504983-1 (paperback)

BASIS FOR DETERMINING GRADES:

Students will be graded based on the following:

- Quizzes/Homework: 15%
- Midterms: 25%
- Student Project: 25%
- Final Exam: 25%
- In-class participation: 10%

Grading Standards:

- A: Work of excellent quality
- B: Work of good quality
- C: Work of fair quality
- D: Work of minimum passing quality
- F: Failure to adequately complete course work

Student work must be turned in on time and late work will receive a penalty grade. Be certain to make a copy of your work if you desire to keep a copy for your permanent file or record.

OTHER INFORMATION:

Disability Services:

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 at 3601 Watt Way (GFS120) and is open from 8:30am to 5:00pm Monday through Friday. The phone number for DSP is (213) 740-0776, or may be contacted by email at ability@usc.edu.

Instructor's policy on cell phone, texting, or other social media-type use during class:

Zero tolerance. If you must use your cell phone or otherwise surf the web during class for other than class appropriate use, please be courteous to me and other students and step outside the class. You are required to leave the class for that entire class session for any violation of this policy.

Additional information at the directive of the Vice-Provost, Graduate Programs, from Memo to Faculty (dtd 09/14/14), required insert into all graduate Course Syllabi:

Statement on Academic Conduct and Support Systems

Academic Conduct:

Plagiarism – presenting someone else's ideas as your own, either verbatim or recast in your own words – is a serious academic offense with serious consequences. Please familiarize yourself with the discussion of plagiarism in *SCampus* in Section 11, *Behavior Violating University Standards* <https://scampus.usc.edu/1100-behavior-violating-university-standards-and-appropriate-sanctions/>. Other forms of academic dishonesty are equally unacceptable. See additional information in *SCampus* and university policies on scientific misconduct, <http://policy.usc.edu/scientific-misconduct/>.

The recommended sanction for violations of academic integrity, such as plagiarism or cheating on an exam, is a final grade of "F" for the course.

Heavy and/or undocumented reliance on material found on the World Wide Web/internet is discouraged, though identifying information later obtained in hard copy format is not. If web-based material is used, all such material must be fully documented with regard to author as well as the URL.

If you have any questions about academic integrity or citation standards, please ask in advance.

Discrimination, sexual assault, and harassment are not tolerated by the university. You are encouraged to report any incidents to the *Office of Equity and Diversity* <http://equity.usc.edu/> or to the *Department of Public Safety* <http://capsnet.usc.edu/department/department-public-safety/online-forms/contact-us>.

This is important for the safety whole USC community. Another member of the university community – such as a friend, classmate, advisor, or faculty member – can help initiate the report, or can initiate the report on behalf of another person. *The Center for Women and Men* <http://www.usc.edu/student-affairs/cwm/> provides 24/7 confidential support, and the sexual assault resource center webpage sarc@usc.edu describes reporting options and other resources.

Support Systems:

A number of USC's schools provide support for students who need help with scholarly writing. Check with your advisor or program staff to find out more. Students whose primary language is not English should check with the *American Language Institute*

<http://dornsife.usc.edu/ali>, which sponsors courses and workshops specifically for international graduate students. *The Office of Disability Services and Programs* http://sait.usc.edu/academicsupport/centerprograms/dsp/home_index.html provides certification for students with disabilities and helps arrange the relevant accommodations. If an officially declared emergency makes travel to campus infeasible, *USC Emergency Information* <http://emergency.usc.edu/> will provide safety and other updates, including ways in which instruction will be continued by means of blackboard, teleconferencing, and other technology.

SCHEDULE OF CLASS TOPICS:

The course meets twice per week, for approximately 2 hours each class meeting. Students are expected to attend each class and to have read the required readings *prior* to class so that they can contribute to in-class discussions. Depending on progress during sessions, the topics and readings for each week are subject to change. Guest Speaker availability is subject to change due to their professional commitments.

There is extensive reading and beginning the second session of class, each student must bring to class specific written questions based on the readings. The questions are to be submitted ***IN HARD COPY ONLY*** using a standard format posted on Blackboard. In addition, there will be short quizzes and/or homework assignments. Students are expected to bring a computer to class that is capable of running Excel. Excel exercises will be part of class.

A short student project will be assigned which requires each student to identify a real property currently offered for sale and to generate a simple evaluation and financial projection for that project.

CLASS MEETINGS:

| <i>Date</i> | <i>Title of Material Covered</i> | <i>Nature of Material Covered</i> |
|--------------------|---|---|
| 08/24 | Introduction and Overview of Course | <ul style="list-style-type: none"> a. Instructor and student introductions. b. An overview of course will be given followed by some key terms, a definition of real estate development, real estate development classification; and the key distinction between financial analysis of development and investments. c. A simplified set of development stages used for this course will be discussed, followed by a discussion of "sale" as a development stage and the critical importance of pre-development stage as microcosm of whole process. |
| 08/26 | Real Estate Development, Organizing for Development | <ul style="list-style-type: none"> a. Peiser, Chapters 1 and 2 b. Ling, Chapter 1 |
| 08/31 | Stages of Development: Concept and Feasibility | <ul style="list-style-type: none"> a. This session will address three types of feasibility; Market - Does anyone want it, and at what price? Economic - Is the price high enough to pay for it? Financial - Can you find the money to build it? |

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| | | <p>This will be followed by a diagrammatic and logical presentation of capital sources and return in real estate.</p> <p>b. The focus here is on financial feasibility with definitions of some critical terms. Particular attention will be given to net operating income as the key measure in all of real estate and there will be a discussion of simplified measures of return.</p> <p>c. Guest Speaker - Feasibility</p> |
| 09/02 | Legal Foundations to Value and Conveyance of Real Estate | <p>a. Legal and regulatory determinations of Value.</p> <p>b. Nature of property and forms of ownership</p> <p>c. Conveying real property</p> <p>d. Ling, Chapters 2 and 3</p> |
| 09/07 | No class – Labor Day holiday | N/A |
| 09/09 | Measures of Return | <p>a. This session will review the key relationship between value and income and discuss Static measurements including Return on cost as related to cap rates and return on investment.</p> <p>b. The advantages and challenges of dynamic (multi-period) analysis will be described together with the two key dynamic measurements of return, the concept of present value, and an overview of internal rate of return.</p> <p>c. A simple static pro forma will be constructed showing value as a function of income; the elements of cost, and the value added as the margin between total costs and completed value.</p> <p>d. Two basic types of analysis will be described, static and dynamic, noting that the best measures are dynamic but we will elaborate on static analysis for general understanding. Additional somewhat less simplified analyses will be illustrated.</p> <p>e. Ling Chapters 5 and 8</p> |
| 09/14 | Real Estate Brokerage: Representation (aka "Listing") Agreements and Contracts for Sale (aka "PSA") – Part 1 | <p>a. Basic definitions and differing perspectives of real estate development and analysis</p> <p>b. The purpose and fundamentals of brokerage, contracts, closings</p> <p>c. Ling Chapters 12 and 13</p> <p>d. STUDENTS TO SELECT A REAL PROPERTY CURRENTLY OFFERED FOR SALE FOR CLASS PROJECT – DRAW LOTTERY FOR ORDER OF</p> |

| | | PRESENTATION |
|-------|--|---|
| 09/16 | Real Estate Brokerage: Representation (aka "Listing") Agreements and Contracts for Sale (aka "PSA") – Part 2 | a. Conclude b. Quiz |
| 09/21 | Market Valuation (Parts 1 and 2) | c. What constitutes value to real estate? d. The relationship between value and cost e. How to determine market value f. Valuation approaches: Sales comparison and cost approach g. How values change in response to external changes h. Valuation approaches: Income approach i. Ling, Chapters 6 and 7 |
| 09/23 | Legal Foundations of Value | a. The critical importance of development rights b. Land use regulation and zoning. c. Ling, Chapter 4 |
| 09/28 | MID-TERM EXAM | Closed book, closed note |
| 09/30 | Real Estate Finance: Laws and Contracts | a. Real estate notes, loan types, interest rates b. Deed of trust c. Ling, Chapters 9 and 10 |
| 10/05 | Time Value of Money (TVM) – Part 1 | a. Basic terms: Future value, present value, compounding, discounting b. Financial tools: Financial calculator, Excel c. Ling, Chapter 14 |
| 10/07 | Time Value of Money (TVM) – Part 2 | a. Conclude b. Quiz |
| 10/12 | Mortgage Calculations and Decisions | c. Basic computations d. Mortgage types and alternate financing instruments e. Lender underwriting f. Ling, Chapter 15 |
| 10/14 | Sources of Commercial Debt and Equity Capital (Part 1) | a. Equity sources: REITs, pension funds, insurance companies, and private real estate funds b. Forms of ownership c. Debt sources: CMBS, development and construction financing d. Ling, Chapters 16 and 17 |
| 10/19 | Sources of Commercial Debt and Equity Capital (Part 2) | a. Guest Speaker – Debt and Equity Capital b. Conclude |
| 10/21 | Individual meetings in RGL regarding Final Project pro-forma inputs | None. More to follow. |
| 10/26 | MID-TERM EXAM | Closed book; closed note |

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| 10/27 | Retail Development (Parts 1 and 2) | a. Guest Speaker – Retail Development b. Peiser, Chapter 7 – note that this is a lengthy chapter. Don't delay its reading. |
| 10/28 | Land Development | a. Peiser, Chapter 3 |
| 11/02 | Multi-Unit Development (Part 1) | a. Peiser, Chapter 4 |
| 11/14 | Multi-Unit Development (Part 2) | a. Guest Speaker - Design trends in multi-unit development |
| 11/09 | Residential Development: Rental Housing, Comparison of Issues and Process Between Residential and Commercial - Conclusion | a. Conclude rental housing b. Introduction to mixed use c. Project meetings – individual meetings regarding course project |
| 11/11 | Office Development – Part 1 | a. Project feasibility, design, construction, financing, and leasing b. Peiser, Chapter 5 |
| 11/16 | Office Development – Part 2 | a. Conclude |
| 11/18 | Industrial Development – Part 1 | b. Project feasibility, design, construction, financing, and leasing c. Peiser, Chapter 6 |
| 11/23 | Industrial Development – Part 2 | a. Conclude b. Quiz |
| | Guest Speaker | c. Trends and issues in development d. Peiser, Chapter 8 |
| 11/25 | No class – beginning of Thanksgiving holiday | N/A |
| 11/30 | Presentations of Student Projects – Part 1 | Order of presentations to be determined in advance by lottery |
| 12/02 | Presentations of Student Projects – Part 2 | Order of presentations to be determined in advance by lottery |
| 12/09 | FINAL EXAM | 8:00am – 10:00am Closed book, closed note |