

## **FBE 391 Spring 2023: Real Estate Finance and Investments**

### **Class Meetings:**

**Section 15310R Monday/Wednesday, 4:00-5:50pm ACC 310**

**Section 15311R Monday/Wednesday, 6:00-7:50pm BRI 5**

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**Professor:** Marco Giacoletti; email [marco.giacoletti@marshall.usc.edu](mailto:marco.giacoletti@marshall.usc.edu)

**Office Hours:** Wednesdays 10:00am-11:00am PST, in HOH 206 or on zoom

**TA Office Hours:** TBD

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### **Course Description**

Real estate is a critical part of the economy and aggregate wealth. The primary goal of this course is to develop an understanding of the principle issues involved in real estate investment and finance. Our treatment of real estate will be rigorously based on the modern finance theory. In the first half of the course, we will cover real estate investment analysis, valuation and financing at the “micro” (individual property) level. In the second half, we will cover mortgages, and briefly discuss real estate capital markets. This course is designed to provide the student with essential tools to understand how real estate value is determined, created, and influenced. We will cover a critical set of analytic concepts and techniques essential for students planning careers in almost any aspect of real estate. It is also a valuable course for finance majors who may become involved with real estate at the corporate level or alternatively as investors, investment advisors, or providers of capital.

### **Learning Objectives**

Students successfully completing this course will be able to:

- Interpret current event articles and case studies through the lens of the formal finance, real estate, economics concepts learned in the course
- Perform a qualitative and quantitative evaluation of income-producing properties, which includes:
  - Using industry-standard terminology and techniques for valuing income producing real estate
  - Making cash flow projections and preparing proforma statements using spreadsheets
  - Evaluating risk of investments and developing expected return measures
- Explain the roles of debt and equity in the structure of real estate transactions
- Understand the mechanics, pros and cons of different types of mortgages. Calculate the APR, payments of mortgages, understand how debt financing affects the risk of the investment
- Navigate the loan underwriting process
- Develop a basic cash flow model using ARGUS Enterprise.

### **Required Materials**

There is no required textbook for the class. If you would like to have a reference textbook, the main recommendation is Geltner, Miller, Clayton and Eichholtz, *Commercial Real Estate Analysis & Investments*, South-Western Educational Publishing; 3<sup>rd</sup> edition (February, 2013). It is available from all major online booksellers and at the USC bookstore. You can use any edition of the textbook.

There will be supplemental readings and cases, which will be made available on Blackboard. The Harvard Business School cases (required) can be purchased online from Harvard Business Online. The website will allow you to purchase a digital copy of each case for \$4.25 using your credit card. The login link for the course will be provided in class.

Case/project submissions will be made through Blackboard. Make sure to complete your submission by the due date and time announced on Blackboard.

### **Prerequisites and Recommended Preparation**

BUAD 215 or BUAD 306. Individuals should have a good understanding of basic financial concepts and techniques such as cash flow discounting, risk and return. A profound background in real estate is neither expected nor necessary, but a solid background in finance is necessary. A basic knowledge of Microsoft Excel is also highly recommended. The use of a financial calculator which can compute annuities/present values and IRRs, such as HP 10B II or 17B II+ is allowed, but is neither necessary nor encouraged.

### **Course Notes and Communication**

Most of the communication outside of class time will take place on Blackboard. I will post all class related information, including the syllabus, lecture notes, Zoom recordings, most of the readings and cases on Blackboard. Please check the Blackboard site regularly for class materials and announcements. If you have any class related questions or comments outside of the class time, you can either use the **Blackboard Discussion Board** to communicate with me and your classmates, or reach out to me or the TAs via email.

## **Grading Policies**

This is an “applied” course. In order to gain hands-on practice, you will be working on several projects, case studies, and assignments, which will account for the majority of your grade in this class. Your grade will be determined by assignments, four project/cases, a midterm exam, a final exam, a final project, and class participation. The grade breakdown will be as follows:

Homework/Cases	40%
Participation	5%
Final project	20%
Midterm exam	25%
Final exam	10%

**Midterm and Final exam:** There will be one midterm exam and one final exam. Exams will cover all materials examined in class or the class notes. The two tests will jointly account for 35% of your grade (25% for the Midterm, 10% for the Final). The midterm will test material covered in the first half of the course, while the final will focus on the second half of the course. However, remember that the latter material builds heavily on the earlier material. Exams will be **open book/notes**.

**Homework:** There will be homework and exercises which are aimed towards giving you the opportunity to use the techniques we learn in class and prepare you for the exams. This homework is marked with “H” in the course outline below and will be posted on Blackboard. I encourage you to discuss the assignments with your classmates; but each student is responsible for preparing and uploading his/her solution independently. There will be 3 homework assignments.

**Cases:** Answers to case questions (marked with “C” in the outline below) are to be submitted through Blackboard. Each student is required to make a separate submission, but you are encouraged to work on the cases in groups. There will be 3 cases.

The final score for Homework + Cases will be based on your best 5 assignments.

**Final project:** The group project will serve as the culmination of the class. The goal of this project is to search for a potential real estate investment, and to present your group's investment proposal to the rest of the class during the last week of the semester. You are expected to attend all of the presentations and provide constructive feedback to your classmates. The potential investment will be the acquisition of an existing development. The source of your development can be the local broker community, the Internet (CoStar, Loopnet, ...), the Wall Street Journal, or your own contacts. The project analysis and presentation will account for 20% of your grade in the course.

**Class participation:** I encourage you to ask your questions to gain clarity, enrich discussion or bring a different perspective. I expect everybody to prepare for and attend the classes, participate in case/project discussions and offer answers to my questions.

## **ADDITIONAL INFORMATION**

### **Technology Requirements**

The following equipment and system requirements are recommended to successfully participate in this online course:

- Computer with webcam
- Earphones or headset
- Reliable (preferably high speed) Internet connection
- Current operating system for Windows or Mac
- Current browser
  - o Google Chrome
  - o Firefox
  - o Internet Explorer (not recommended)
  - o Safari (Mac)

For technical support please see:

- **USC Systems** (Blackboard, USC Login, MyUSC)  
For assistance with your USC login or other USC systems, please call +1 (213) 740-5555 or email [Consult@usc.edu](mailto:Consult@usc.edu). They are open Mon – Fri 9:30 am – 5:00 pm and weekends from 8:00 am – 5:00 pm (all Pacific time).
- **Zoom Video Web Conferencing System** (Live Zoom Sessions)  
For assistance using Zoom, go to Zoom Support Page. You may also call +1 (888) 799-9666 ext. 2. They are available 24/7.
- **Marshall Systems** (MyMarshall, Marshall Outlook email)  
For assistance with Marshall systems you can call +1 (213) 740-3000 Mon-Fri 8am-6pm (Pacific), email [HelpDesk@marshall.usc.edu](mailto:HelpDesk@marshall.usc.edu) or use our self-help service portal as shown below. The portal allows you to get immediate assistance by searching for the information you need. You can also use it to chat with a technician or input a request. To access the service portal, follow these steps:
  - o On a computer or mobile device, go to MyMarshall Home Page and click the “Help” link on the upper right.
  - o Log in using your Marshall username and password.
  - o (If you don’t know your Marshall login please follow the onscreen instructions pertaining to login issues. You will need to know how to login to your Marshall account for accessing Argus Enterprise in week 8.)

If your computer does not have Microsoft Word, Office 365 package is available to you free of charge and allows you to install Word, Excel, PowerPoint, Outlook, OneNote, Publisher, and Access on up to 5 PCs or Macs and Office apps on other mobile devices including tablets. Office 365 also includes unlimited cloud storage on OneDrive. To download Office 365 log into your student (University) email through a web browser, choose Settings (top right corner), and select software. If you have further questions or need help with the software, please contact the USC ITS service portal.

### **Notice on Academic Integrity**

The use of unauthorized material, communication with fellow students during an examination, attempting to benefit from the work of another student, and similar behavior that defeats the intent of an examination or other class work is unacceptable to the University. It is often difficult to distinguish between a culpable act and inadvertent behavior resulting from the nervous tensions accompanying examinations. Where a clear violation has occurred, however, the instructor may disqualify the student's work as unacceptable and assign a failing mark on the paper.

Academic dishonesty includes: (Faculty Handbook, 1994: 21-22):

- Examination behavior - any use of external assistance during an examination shall be considered academically dishonest unless expressly permitted by the teacher.
- Plagiarism - the appropriation 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 practices.
- Other types of academic dishonesty - submitting a paper written by or obtained from another, using a paper or essay in more than one class without the teacher's express permission, obtaining a copy of an examination in advance without the knowledge and consent of the teacher, changing academic records outside of normal procedures and/or petitions, using another person to complete homework assignments or take-home exams without the knowledge or consent of the teacher.

### **USC 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 Part B, Section 11, “Behavior Violating University Standards” <https://policy.usc.edu/scampus-part-b/>. 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>.

### **Support Systems:**

Counseling and Mental Health - (213) 740-9355 – 24/7 on call [studenthealth.usc.edu/counseling](http://studenthealth.usc.edu/counseling)

Free and confidential mental health treatment for students, including short-term psychotherapy, group counseling, stress fitness workshops, and crisis intervention.

National Suicide Prevention Lifeline - 1-800-273-8255 [suicidepreventionlifeline.org](http://suicidepreventionlifeline.org)

Provides free and confidential emotional support to people in suicidal crisis or emotional distress 24 hours a day, 7 days a week.

Relationship and Sexual Violence Prevention and Services (RSVP) - (213) 740-9355(WELL), press “0” after hours – 24/7 on call [studenthealth.usc.edu/sexual-assault](http://studenthealth.usc.edu/sexual-assault)

Free and confidential therapy services, workshops, and training for situations related to gender-based harm.

Office of Equity and Diversity (OED) - (213) 740-5086 | Title IX - (213) 821-8298 [equity.usc.edu](http://equity.usc.edu), or [titleix.usc.edu](http://titleix.usc.edu)

Information about how to get help or help someone affected by harassment or discrimination, rights of protected classes, reporting options, and additional resources for students, faculty, staff, visitors, and applicants. The university prohibits discrimination or harassment based on the following protected characteristics: race, color, national origin, ancestry, religion, sex, gender, gender identity, gender expression, sexual orientation, age, physical disability, medical condition, mental disability, marital status, pregnancy, veteran status, genetic information, and any other characteristic which may be specified in applicable laws and governmental regulations. The university also prohibits sexual assault, non-consensual sexual contact, sexual misconduct, intimate partner violence, stalking, malicious dissuasion, retaliation, and violation of interim measures.

Reporting Incidents of Bias or Harassment - (213) 740-5086 or (213) 821-8298 [usc-advocate.symplicity.com/care\\_report](http://usc-advocate.symplicity.com/care_report)

Avenue to report incidents of bias, hate crimes, and microaggressions to the Office of Equity and Diversity |Title IX for appropriate investigation, supportive measures, and response.

USC Support and Advocacy - (213) 821-4710 [uscса.usc.edu](http://uscса.usc.edu)

Assists students and families in resolving complex personal, financial, and academic issues adversely affecting their success as a student.

Diversity at USC - (213) 740-2101 [diversity.usc.edu](http://diversity.usc.edu)

Information on events, programs and training, the Provost’s Diversity and Inclusion Council, Diversity Liaisons for each academic school, chronology, participation, and various resources for students.

USC Emergency - UPC: (213) 740-4321, HSC: (323) 442-1000 – 24/7 on call [dps.usc.edu](https://dps.usc.edu), or [emergency.usc.edu](https://emergency.usc.edu)

Emergency assistance and avenue to report a crime. Latest updates regarding safety, including ways in which instruction will be continued if an officially declared emergency makes travel to campus infeasible.

USC Department of Public Safety - UPC: (213) 740-6000, HSC: (323) 442-120 – 24/7 on call [dps.usc.edu](https://dps.usc.edu)

Non-emergency assistance or information.

Office of Disability Services and Programs - (213) 740-0776 [dps.usc.edu](https://dps.usc.edu), [ability@usc.edu](mailto:ability@usc.edu).

USC is committed to making reasonable accommodations to assist individuals with disabilities in reaching their academic potential. Services include assistance in providing readers/notetakers/interpreters, special accommodations for test taking needs, assistance with architectural barriers, assistive technology, and support for individual needs. If you have a disability which may impact your performance, attendance, or grades in this course and require accommodations, you must first register with the Office of Disability Services and Programs ([dsp.usc.edu](https://dsp.usc.edu)) provides certification for students with disabilities and helps arrange the relevant accommodations. 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 GFS (Grace Ford Salvatori Hall) 120 and is open 8:30 a.m.–5:00 p.m., Monday through Friday.

### **Students with Disabilities**

USC is committed to making reasonable accommodations to assist individuals with disabilities in reaching their academic potential. If you have a disability which may impact your performance, attendance, or grades in this course and require accommodations, you must first register with the Office of Disability Services and Programs ([www.usc.edu/disability](http://www.usc.edu/disability)). DSP provides certification for students with disabilities and helps arrange the relevant accommodations. 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. Students requesting test-related accommodations will need to share and discuss their DSP recommended accommodation letter with me at least three weeks before the date the accommodations will be needed. DSP is located in GFS (Grace Ford Salvatori Hall) 120 and is open 8:30 a.m.–5:00 p.m., Monday through Friday. The phone number for DSP is (213) 740- 0776. Email: [ability@usc.edu](mailto:ability@usc.edu).

### **Note**

This syllabus is an invitation to you as a student to engage in an exciting and interactive study of real estate finance and investments. My instruction will focus on real-world engagement with real estate investments; it will provide you with information, offer practice with skills, and enhance your preliminary understanding of real estate concepts. It is my intention to provide a collaborative and supportive learning environment where students learn from one another both in and out of the classroom. To that end, modifications to this syllabus might be warranted as determined by the instructor as I assess the learning needs of this particular class of students.



## **TENTATIVE COURSE OUTLINE**

(You should expect some deviations from the outline. Significant changes will be announced on Blackboard and in class.)

### **Weeks #1 and #2 (1/9, 1/11, 1/18)**

No class on 1/16 (Martin Luther King Day).

Course overview

Space and asset markets (GM<sup>†</sup> Ch 1)

Real estate investments - background (GM Ch 7)

Emerging trends in real estate 2020

### **Week #3 (1/23, 1/25)**

Real estate valuation - Cash flow proformas (GM Ch 11, 12)

### **Week #4 (1/30, 2/1)**

Real estate valuation, cont'd. (GM Ch 12)

**HW 1 (valuation) is due on 2/1 (H)**

### **Week #5 (2/6, 2/8)**

Real estate investments - risk and return (GM Ch 8,9,10)

***Case Study Questions: Pinckney Street, due on 2/15. (C)***

### **Week #6 (2/13, 2/15)**

Leverage and valuation (GM Ch 13)

Pinckney Street Case

**HW 2 (Rentleg proforma) is due on 2/17 (H)**

### **Week #7 (2/22)**

No class on 2/20 (President's Day).

Mortgages (GM Ch 17,19)

Mortgages: Securitization

### **Week #8 (2/27, 3/1)**

**Argus**

Midterm review on 3/1

### **Week #9 (3/8)**

Class canceled on 3/6

**Midterm exam on 3/8**

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<sup>†</sup> Geltner, Miller, Clayton & Eichholtz.

**Week #10 (No Classes. Spring Break)**

Enjoy the Break!

**Week #11 (3/20, 3/22)**

Underwriting

***Case Study Questions: Stuyvesant Town – Peter Cooper Village: America’s Largest Foreclosure, due on 3/27***

**Week #12 (3/27, 3/29)**

Stuyvesant Town Case

Taxes and valuation (GM Ch 14)

***Case Study Questions: Angus Cartwright IV, due on 4/3. (C)***

**Week #13 (4/3, 4/5)**

Angus Cartwright Case

Taxes and valuation (GM Ch 14)

**Week #14 (4/10, 4/12)**

Real options

Review

***HW 3 is due on 4/12 (H)***

**Weeks #15 and #16 (4/17, 4/19, 4/24, 4/26)**

**Guest speaker (4/17): Mark Loewen, Wells Fargo, Managing Director CRE**

**Guest speaker (4/19): Reza Etedali, Reza Investment Group, CEO & Founder**

**Guest speaker (4/24): Mercedes Kerr, Belmont Village Living Facilities, President**

***Final project presentations***

***Project reports (slides and documents) are due on the day of the presentation, before class.***

**Final Exam Schedule**

**Pending: Exam period is May 3 – May 10**