



RED 542: Finance of Real Estate Development

Units: 3 units

Term/Day/Time: Fall 2023, Thursday, 6:00 – 8:50 PM

Location: Ralph and Goldy Lewis Hall (RGL) 219

Instructors:

Instructors: Alon Kraft and Babak Ziai

Contact: akraft@outlook.com and babak@brandviewcap.com

Office Hours: Students to follow up directly with Instructors as needed

Lab:

Lab Time: Thursday, 2:00 – 3:50 PM (online via Zoom link in Blackboard)

Instructor: Iain Gulin

Contact Info: gulin@usc.edu

Course Overview

This course is designed to help students master the core skills needed to evaluate real estate investment and financing decisions in real-world situations. Two overarching questions guide this framework – (1) what investments should be made and (2) how should those investments be funded? The course focuses on enabling students to think critically about the factors that influence real estate valuations, risks, and returns.

This course is also designed to help students understand the risk and return differences between different real estate investment positions, how to evaluate the tradeoffs between them, and to understand how fluid and flexible these positions can be. To accomplish this, students will evaluate the risk and return factors associated with various real estate product types, repositioning programs, and capital stack positions.

Real estate professionals add value when they understand and implement these concepts, regardless of whether they are architects, brokers, capital providers, developers, government employees, or investors.

Course Organization

The course is a combination of lectures, labs, cases, and guest speakers (as may be available). Lectures and labs are intended to prepare students by giving them the tools necessary to critically and creatively analyze the issues found in the cases. The cases have been selected to provide students with a broad array of advanced real estate topics and to guide them to apply the concepts taught during lectures in a real-world setting. Guest speakers will play two important roles – (1) they will provide context for class material and current information about a variety of markets and product types and (2) they will assist in running discussion related to individual cases (typically cases in which they had material participation). Students are expected to be prepared to discuss every case. Assignments include market analyses, case questions, case write-ups, and presentations. There also may be additional exercises to support cases as the semester progresses. There will be a midterm exam and a final exam; both of which will build upon the case

assignments and lectures throughout the semester.

The following is a prerequisite for this course: RED 541.

Readings and Supplementary Materials (Textbook, Slides, & Periodicals)

Periodicals: Students are expected to know what is happening in real estate markets as well as general financial markets. By staying abreast of what is happening, students can assess their understanding of real estate lingo and fundamentals. Here are a few suggested sources: the Wall Street Journal, Calculated Risk, Housing Wire, Urbanize LA, Curbed LA, Pensions & Investments, NAREIT Investment Smartbrief, Institutional Real Estate Newslite, TREPP Talk, and MSCI Real Estate Newsletter.

YouTube – Excel Tutorials Resource:

Excel Is Fun – <https://www.youtube.com/user/ExcelIsFun>

Highly Recommended Textbooks (not required):

Linneman and Kirsch, *Real Estate Finance and Investments: Risks and Opportunities*, Edition 5.1 (or 5.2), Book orders: <https://www.linnemanassociates.com/real-estate-finance-textbook-1>

Other Optional Textbooks:

Ling and Archer, *Real Estate Principles, A Value Approach*, 5th Edition

Bodie, Kane, and Marcus, *Investments*, McGraw-Hill Education, 2017

Allen, *Essentials of Financial Practice*, AFS Voyager Press, 2015

Grade Breakdown

Case Preparation Assignments	10%
Cases	25%
Midterm Exam	20%
Final Exam	35%
Participation	10%
Total	100%

Cases (25%)

Cases will be completed in groups of three or four. We will coordinate groups during the first class meeting. If you are not in a group by the end of the first day of classes, you will be randomly assigned to a group. The cases portion of the final grade will be an equally-weighted average of the individual grades from the cases covered during the semester. Each case grade will mostly be based on write-ups and presentations submitted when the final submittal for the case is due. Detailed information on these cases will be posted to Blackboard along with the expectations for each case. Students are required to come to class prepared to discuss each case. Students need to individually complete Parts 1 and 2 of each case. They are encouraged to work with their respective groups in completing these parts, however, each student must submit their own individual solution to the Excel portions. As needed, we can coordinate meetings with each group over Zoom.

Final Exam (35%)

The final exam is scheduled for **Thursday, December 7, 2023, from 7:00 – 9:00 PM**. The final exam will be cumulative. Students are responsible for verifying the final exam date and time. **Students need to verify the date and time on the University website, (especially prior to making travel arrangements).**

Midterm (20%)

The midterm exam will be held on **Thursday, September 28, 2023**, and take the place of our normal class. The exam will cover the material taught in the course to that point.

Labs & Case Preparation Assignments (10%)

The Labs and Case Preparation Assignments portion of the final grade will be an equally-weighted average of the individual grades from the assignments covered during the semester. These assignments will mostly be graded based on effort. There will be an in-class lab assignment for most classes.

Participation (10%)

Participation grades will be based on a students' ability to contribute positively to class discussion. Actively and regularly contributing positively to class discussions will increase one's participation grade. Arriving late, sleeping in class, not attending class, not paying attention, or using electronic devices during class will decrease a participation grade. Online Zoom participants negatively impact and distract in-person participants when they ask questions either through Zoom or messaging devices. As such, students will be penalized for asking questions remotely through Zoom. Again, students need to be present to contribute. The only way to obtain the full participation credit for the day is to attend in person. You can miss three classes without it affecting your grade.

Because student feedback is so important to improving the class and the program, all students will receive 5% of extra credit on the Final Exam if 90% of the students fill out the class evaluation at the end of the semester.

Please note, you need to notify us at least one week in advance if you are going to be absent from class when a deliverable is due. Otherwise, you are expected to be in class and to complete the required deliverables with the rest of the class. If you need to miss class on a day when a deliverable is due, you will need to plan ahead and coordinate with us to make sure the deliverable is done in advance.

To help encourage student discussions and interactions, as well as improve one's participation grade, each student should share insights, articles, and questions relevant to the course at least one day in advance of any class session. We will bring these discussion points up in class.

Additionally, unless students provide an accommodation letter from USC's Office of Student Accessibility Services, attendance and active participation is expected in the classroom. Any student with such accommodations should submit their accommodation document to the instructors as soon as possible and no later than the end of the second week of classes to discuss appropriate accommodations. Either classroom recordings or live remote access to the class via Zoom will be provided. Students who are experiencing illness should not attend class in person. Students must inform instructors in advance of any class sessions they cannot attend for medical reasons and accommodations will be arranged to view recorded lectures and submit alternatives to any missed class participation. Students will not be penalized for not attending class in-person under these circumstances.

Late Submittals

Assignments are considered late if they are submitted after the due date and time. Late assignments grades will be penalized by 25% until the assignment is one week late. Once the assignment is one week late, grades

will be penalized by 50% until the assignment is two weeks late. Once the assignment is two weeks late, grades will be penalized by 75%. Assignments will not be accepted after the last day of regular classes.

Grading Difficulty

Assignment grading will gradually increase in difficulty. Grading at the beginning of the semester will be more lenient and become more critical over the semester.

Holidays & Other Excused Absences

Assignments need to be completed on time if you plan to miss class to observe a holiday. In order to still complete them on time you may need to plan ahead and complete them in advance. Contact me if it is necessary to set up office hours to discuss material ahead of time as needed.

Grading Scale

The grading scale will be weighted both in terms of the “grade evaluation” noted earlier for each course segment and then a weighted curve of class participants’ performance for each segment.

Guest Speakers

From time to time, we may have Guest Speakers joining the lecture and we will provide notice 1-2 weeks in advance. An important part of participation happens when we have guest speakers. Guest speakers generously give of their time and provide a real-world perspective of the current fundamentals influencing real estate finance. Please prepare for Guest Speakers by researching about the individual and their company. Please come prepared to ask questions related to the Guest Speakers area of expertise. We will post a “thank you” note for the Guest Speaker on LinkedIn after their visit. Please “like” it and either comment on it or reach out and thank them for their time individually. Your participation in this will influence your participation grade.

Informational Interviews

Informational interviews are one of the best ways to learn about a career in real estate and are a wonderful way to build your network. Networking is also an important part of a successful career in real estate. We encourage you to regularly reach out to industry professionals to set up informational interviews. Please share any insights you receive from informational interviews with the class.

<https://careers.usc.edu/career-pathfinder/conduct-interviews/>

Current Events

It is important to be aware of what is happening in the economy and the financial/real estate markets. Here are a few useful resources.

News Groups:

<https://www.wsj.com/>

<https://www.bisnow.com/national>

<https://www.globest.com/markets/national/?slreturn=20200617150441>

<https://www.nreionline.com/news>

Market Participants:

<https://www.msci.com/research/real-estate>

<https://www.us.jll.com/en/trends-and-insights>

<https://www.ngkf.com/insights>

<https://www.cbre.us/research-and-reports>

Administrative Points

Homework Points

Q: Can one prepare for Homework & Case Assignments with classmates?

Yes. Except where noted, collaboration and working in groups *is encouraged*. Homework and Case Assignments are designed for your benefit. They are designed to give you experience in applying what you learn in class and from the readings. They also reflect what the exams will look like (in part). It is highly recommended that you treat Homework and Case Assignments seriously. Waiting until the last minute to work on assignments and prepare for class is sub-optimal and will likely lead to sub-optimal performance.

Office Hours & General Questions

Please *e-mail us at least one day prior to a scheduled office hours meeting* so that we can be prepared for our discussion. Please let us know what you would like to review and what questions you have. This will allow our discussion to be more meaningful and productive.

Questions that are e-mailed to us will be answered at the beginning of the next lecture after they are received. Answers will be shared with the entire class so that everyone can benefit from them. If you would prefer an individual response, please set up a time to visit with us at a mutually acceptable time. Please plan ahead to ensure responses are provided by the time you need them.

Notification of Scores and Final Grades:

Grade results are not given via phone, US post, e-mail, or verbally in person. Materials submitted for grading throughout the term will be returned to students generally within one week after submission. Students with unexcused absences on the date that material is returned must retrieve their materials directly from the instructors. Students may obtain their final grades online.

Excused Absences and Make-Ups

Please contact the instructors prior to any affected deadlines if you have an excused absence. Excused absences are those outlined by the University. It is the responsibility of absent students to obtain and understand any class material missed. This includes, but is not limited to, the concepts discussed, notes, and any handouts provided. Make-up opportunities will not be given for unexcused absences.

Request for Regrade / Clarification Policy

Final grades are determined by performance on the items discussed in the “Grade Evaluation” section. Extra credit or make-up assignments (for unexcused absences) are not possible. However, grading errors should be corrected. Appeals must be submitted in writing within one week after the originally graded work is returned to the class. When submitting an appeal, it is important to note that the entire document will be regraded and checked for all grading errors. All grading errors that are found will be corrected. Depending on if any errors are found, revised grades could be either higher, lower, or the same as the original grades.

Class Schedule / Summary

Date	Day	Classroom Topics	Assignment Due
8/24	Thu	<p><u>Topic:</u> Class Organization & Review</p> <ul style="list-style-type: none"> • <u>Lecture:</u> Class Organization & Expectations • <u>Lecture:</u> Decision making under uncertainty • <u>Lecture:</u> Financial decisions, capital markets, time-value of money, investment decision rules • <u>Lecture:</u> Cash flows basics (asset, debt, & equity) • <u>Lab:</u> Analyst Case #1 	
8/31	Thu	<p><u>Topic:</u> Capital Stack (Debt & Equity Basics)</p> <ul style="list-style-type: none"> • <u>In Class Exercise:</u> Analyst Case #1 • <u>Lecture:</u> Capital Stack (part 1) - Debt & Equity Basics • <u>Lab:</u> Basic Excel functions 	<ul style="list-style-type: none"> • Case #1, Part 1
9/7	Thu	<p><u>Topic:</u> Capital Stack (Debt Expanded)</p> <ul style="list-style-type: none"> • <u>Presentations:</u> Case #1 • <u>Lecture:</u> Capital Stack (part 2) - Debt Expanded • <u>Lab:</u> Debt exercises 	<ul style="list-style-type: none"> • Case #1, Part 2
9/14	Thu	<p><u>Topic:</u> Capital Stack (Equity Expanded)</p> <ul style="list-style-type: none"> • <u>In Class Exercise:</u> Analyst Case #2 • <u>Lecture:</u> Capital Stack (part 3) - Equity Expanded • <u>Lab:</u> Equity exercises 	<ul style="list-style-type: none"> • Case #2, Part 1
9/21	Thu	<p><u>Topic:</u> Class Presentations, Underwriting, & Review</p> <ul style="list-style-type: none"> • <u>Presentations:</u> Case #2 • <u>Lecture:</u> Stakeholders, deliverables, investment memos, presentations • <u>Lecture:</u> Risk & return analysis • <u>Lecture:</u> Value creation • <u>Lab:</u> Equity exercises 	<ul style="list-style-type: none"> • Case #2, Part 2

Date	Day	Classroom Topics	Assignment Due
9/28	Thu	<u>Topic:</u> MIDTERM EXAM	<ul style="list-style-type: none"> • MIDTERM EXAM
10/5	Thu	<u>Topic:</u> Commercial Leases <ul style="list-style-type: none"> • <u>Lecture:</u> Commercial leases • <u>Lecture:</u> Joint Venture / Private Equity Funds • <u>Lab:</u> Waterfall Exercises (Beginner - 2 tier) 	<ul style="list-style-type: none"> • Case #3, Part 1
10/12	Thu	Fall Break	
10/19	Thu	<u>Topic:</u> Commercial Leases <ul style="list-style-type: none"> • <u>Lecture:</u> Commercial leases • <u>Lecture:</u> Joint Venture / Private Equity Funds • <u>Lab:</u> Waterfall Exercises (Beginner - 2 Tier) 	<ul style="list-style-type: none"> • Case #3, Part 2
10/26	Thu	<u>Topic:</u> Commercial Leases <ul style="list-style-type: none"> • Presentations: Case #4 • Lecture: Commercial leases • Lecture: Joint Venture / Private Equity Funds • Lab: Waterfall Exercises (Intermediate - 3 tier) 	
11/2	Thu	2023 ULI Fall Meeting Oct 30 – Nov 2	

Date	Day	Classroom Topics	Assignment Due
11/9	Thu	<p><u>Topic:</u> Development Risk</p> <ul style="list-style-type: none"> • <u>Lecture:</u> Development risk • <u>Lab:</u> Waterfall Exercises (Intermediate - 3 tier) 	<ul style="list-style-type: none"> • Case #4, Part 1
11/16	Thu	<p><u>Topic:</u> Advanced Capital Structure & Development Risk</p> <ul style="list-style-type: none"> • <u>Lecture:</u> Development risk • <u>Lab:</u> Waterfall Exercises (Advanced) 	<ul style="list-style-type: none"> • Case #4, Part 2
11/23	Thu	<p>Thanksgiving</p>	
11/30	Thu	<p><u>Topic:</u> Advanced Capital Structure & Development Risk</p> <ul style="list-style-type: none"> • <u>Lab:</u> Waterfall Exercises (Advanced) 	
12/7	Thu	<p><u>Topic:</u> FINAL EXAM Thursday, December 7, 7-9 p.m. (subject to change) https://classes.usc.edu/term-20223/finals/</p>	<ul style="list-style-type: none"> • FINAL EXAM

Statement on Academic Conduct and Support Systems

Academic Integrity:

The University of Southern California is a learning community committed to developing successful scholars and researchers dedicated to the pursuit of knowledge and the dissemination of ideas. Academic misconduct, which includes any act of dishonesty in the production or submission of academic work, compromises the integrity of the person who commits the act and can impugn the perceived integrity of the entire university community. It stands in opposition to the university's mission to research, educate, and contribute productively to our community and the world.

All students are expected to submit assignments that represent their own original work, and that have been prepared specifically for the course or section for which they have been submitted. You may not submit work written by others or “recycle” work prepared for other courses without obtaining written permission from the instructor(s).

Other violations of academic integrity include, but are not limited to, cheating, plagiarism, fabrication (e.g., falsifying data), collusion, knowingly assisting others in acts of academic dishonesty, and any act that gains or is intended to gain an unfair academic advantage.

The impact of academic dishonesty is far-reaching and is considered a serious offense against the university. All incidences of academic misconduct will be reported to the Office of Academic Integrity and could result in outcomes such as failure on the assignment, failure in the course, suspension, or even expulsion from the university.

For more information about academic integrity see [the student handbook](#) or the [Office of Academic Integrity's website](#), and university policies on [Research and Scholarship Misconduct](#).

Please ask your instructor if you are unsure what constitutes unauthorized assistance on an exam or assignment, or what information requires citation and/or attribution.

Students and Disability Accommodations:

USC welcomes students with disabilities into all of the University's educational programs. [The Office of Student Accessibility Services](#) (OSAS) is responsible for the determination of appropriate accommodations for students who encounter disability-related barriers. Once a student has completed the OSAS process (registration, initial appointment, and submitted documentation) and accommodations are determined to be reasonable and appropriate, a Letter of Accommodation (LOA) will be available to generate for each course. The LOA must be given to each course instructor by the student and followed up with a discussion. This should be done as early in the semester as possible as accommodations are not retroactive. More information can be found at osas.usc.edu. You may contact OSAS at (213) 740-0776 or via email at osasfrontdesk@usc.edu.

Support Systems:

[Counseling and Mental Health](#) - (213) 740-9355 – 24/7 on call

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

[988 Suicide and Crisis Lifeline](#) - 988 for both calls and text messages – 24/7 on call

The 988 Suicide and Crisis Lifeline (formerly known as the National Suicide Prevention Lifeline) provides free and confidential emotional support to people in suicidal crisis or emotional distress 24 hours a day, 7 days a week, across the United States. The Lifeline is comprised of a national network of over 200 local crisis centers, combining custom local care and resources with national standards and best practices. The new, shorter phone number makes it easier for people to remember and access mental health crisis services (though the previous 1 (800) 273-8255 number will continue to function indefinitely) and represents a continued commitment to those in crisis.

[Relationship and Sexual Violence Prevention Services \(RSVP\)](#) - (213) 740-9355(WELL) – 24/7 on call

Free and confidential therapy services, workshops, and training for situations related to gender- and power-based harm (including sexual assault, intimate partner violence, and stalking).

[Office for Equity, Equal Opportunity, and Title IX \(EEO-TIX\)](#) - (213) 740-5086

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.

[Reporting Incidents of Bias or Harassment](#) - (213) 740-5086 or (213) 821-8298

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

[The Office of Student Accessibility Services \(OSAS\)](#) - (213) 740-0776

OSAS ensures equal access for students with disabilities through providing academic accommodations and auxiliary aids in accordance with federal laws and university policy.

[USC Campus Support and Intervention](#) - (213) 740-0411

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

[Diversity, Equity and Inclusion](#) - (213) 740-2101

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

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) 442-1200 – 24/7 on call

Non-emergency assistance or information.

[Office of the Ombuds](#) - (213) 821-9556 (UPC) / (323-442-0382 (HSC)

A safe and confidential place to share your USC-related issues with a University Ombuds who will work with you to explore options or paths to manage your concern.

[Occupational Therapy Faculty Practice](#) - (323) 442-2850 or otfp@med.usc.edu

Confidential Lifestyle Redesign services for USC students to support health promoting habits and routines that enhance quality of life and academic performance.

Policy for the use of AI Generators:

In this course we do not specifically encourage or discourage the use of artificial intelligence (AI)-powered programs to help you with your assignments. However, you should also be aware that AI text generation tools may present incorrect information, biased responses, and incomplete analyses; thus they are not yet prepared to produce text that meets the standards of this course. To adhere to our university values, you must cite any AI-generated material (e.g., text, images, formulas, etc.) included or referenced in your work and provide the prompts used to generate the content. Using an AI tool to generate content without proper attribution will be treated as plagiarism and reported to the Office of Academic Integrity. Please review the instructions in each assignment for more details on how and when to use AI Generators for your submissions.