Wayne State University
Department of Urban Studies and Planning
UP 6310: Real Estate Development & Finance
Winter 2017

INSTRUCTOR
Prof. Avis C. Vidal
Office: 3198 F/AB
Tel: 313 577-8842
Fax: 313-577-0022
Email: a.vidal@wayne.edu

CLASS
CRN 27701
3 credits

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COURSE INFORMATION

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COURSE INFORMATION

This course uses the case method to familiarize students with the key elements of the real estate development process, and with the major actors in that process, including their perspectives and constraints. Students who successfully complete the course will be able to (1) identify the varied financial and non-financial objectives and constraints – both quantitative and qualitative – of key actors in the real estate development process; (2) complete a pro forma financial analysis of real estate developments involving different types of property; and (3) place that financial analysis in a broader institutional and market context to make sound development decisions. The course will stress principles and techniques common to all major types of development, but these general principles will be illustrated with examples of varied types of housing and commercial properties.

The course is designed for upper-level graduate students, particularly those seeking professional degrees. It may be suitable for some undergraduate seniors, particularly those with strong academic records (GPA of at least 3.0) and demonstrated mathematical proficiency (at a minimum, meeting the undergraduate math proficiency requirement). Undergraduates must obtain the permission of the instructor to register, and will be expected to meet the same academic standards as those required of graduate students.

COURSE MATERIALS AND RESOURCES

Reading and case assignments are detailed in the syllabus. Some of the materials will be made available on Blackboard. Most students will find it advantageous to purchase the remaining materials on-line and download them from the Harvard Business School (HBS). You will need a credit card to make these purchases, and you will want to make the purchases from a computer where you have access to a good printer. The most economical way to purchase these materials is to buy the course pack at http://cb.hbsp.harvard.edu/cbmp/access/57627026.

If you are not certain you will take the course and want to purchase only the first few items, you may purchase early materials from the bookstore, or go to http://harvardbusinessonline.hbsp.harvard.edu to set up an
account, then search for individual readings by title or case number. Note, however, that if you buy the items individually, you will not get the coursepack discount ($0.70 per case). Students are strongly advised to download the materials well in advance of when you will need them, rather than waiting until the last minute. Please notify the instructor immediately if you have difficulty accessing the HBS materials.

Copies of some of the cases are available very cheaply in an old text by William Poorvu. DO NOT USE THEM. They are outdated, and are built around completely different numbers than the versions available for purchase from HBS. Current versions of the cases can be identified by the revision dates shown in the syllabus. Analyses submitted based on old numbers will be returned ungraded to be redone and resubmitted on a short turn-around basis.

The Internet can be an invaluable resource for real estate information. The Urban Land Institute (ULI) has one of the better sites, and students are encouraged to browse this site early in the course (www.uli.org). ULI publishes a wide variety of materials useful to private and public sector participants in the real estate development process. In addition to the widely read *Urban Land Magazine*, they offer a wide variety of basic and topical reference books. Two of their most popular are:


Both are excellent, comprehensive reference books in the field. Students wishing to purchase one of these volumes or others published by ULI should contact the instructor, who can obtain them at the member’s discount price.

The Internet is also a source for extensive information about real estate markets, many of them maintained by firms in the industry. A good example of one that provides up-to-date financial information is Fantini & Gorga, whose *Master Money Matrix* provides current information about the rates and terms of a wide variety of financial instruments (www.fantinigorga.com). RSMeans is a widely used source of information (available only for a fee) for estimating construction costs (http://rsmeans.com/). An excellent reference guide to professional real estate materials is maintained by the Baker Library at the Harvard Business School (http://www.library.hbs.edu/guides/realestate.html). Much more detailed research information, including basic descriptions of proprietary databases (for which there is a fee) can be found in “A Note on Real Estate Research” by Arthur J Segel, Griffin H James and Ann Cullen (HBS #9-210-086), revised January 2012.

The real estate portions of *Crain's Detroit Business* provide current information about on-going and proposed developments in the city. It is highly recommended for anyone who expects to practice in this region (www.crainsdetroit.com).

Preparation of exercises, cases and exams for this class will require use of a calculator that can execute basic real estate financial calculations. The model recommended for purchase is the HP-12C; the basic model will meet all your needs, so purchase of Premium or Platinum models is not necessary. It comes with a very good user manual, complete with step-by-step examples, which you will need. It is widely available at office supply stores (call ahead to confirm availability), but better prices are typically available on line. Used calculators are
less costly, but rarely come with a manual. The manual is available at no cost online, but is quite long to download. The features of the HP-12C are also available as applications for smartphones, which are considerably less expensive than the calculator. The most popular ones are from Hewlett Packard and RLM Tools (www.rlmtools.com).

An alternative model, the Texas Instruments BAII Plus, performs all the necessary functions and is generally available for $30-40, depending where you find it. Note, however, that the HP instruments work very differently from the TI instruments and we will not discuss how to use the TI instruments in class (and the user manual for the TI is not very good), so this option is not recommended unless you already have this model and know how to use it. The TI 83+ also has a program (TVM Solver) that is suitable; download instructions from http://education.ti.com/downloads/guidebooks/graphing/83p/83m$book-eng.pdf. If you already have a calculator that you think might be suitable, or are shopping for a phone app, check to make sure it can calculate monthly mortgage constants, amortization (monthly and annual), net present value (NPV), and internal rate of return (IRR). Please bring your calculator to all class meetings; you will need it to complete the homework due at the second class.

Use of computer-based spreadsheets is commonplace in the real estate industry. Students are encouraged to create their own spreadsheet programs, as appropriate, in completing course assignments. However, it is critical that students understand the basic concepts and methods involved in real estate calculations before using the computer as an efficient aid. Therefore you will not be able to use on-line spreadsheets during the Mid-term Examination.

WRITTEN ASSIGNMENTS AND EXAMINATIONS

The course will be a mix of case discussions, exercises, lectures, and guest presentations. Active classroom participation by students -- based on prior preparation of cases and reading materials -- is required throughout the course.

Written course requirements include five study exercises, three case analyses, a mid-term examination, and a take home final exam.

1. Study exercises are due at the beginning of class. Completing these exercises is an integral part of preparing for class discussions; they can be handwritten but must be easily legible. Study exercises will be graded on a credit/no credit basis. Since the answers are distributed in class so you get immediate feedback on your mastery of the material, these assignments will not be accepted late.

2. Three case analyses are due from students at the beginning of class on the following dates:

   (A) February 5 - Angus Cartwright IV
   (B) February 29 - Feasibility Study Exercise
   (C) One additional. You will have a choice between two cases, due on different dates after spring break; cases will be selected in light of expressed student interests; dates will be determined by the availability of key guest presenters.

Written case analyses must be typed, with exhibits on spreadsheets or in tables.
3. There will be a closed book mid-term examination held in class on March 7. **Students who do not pass the mid-term will be expected to re-take it.** You cannot do a proficient job on the more advanced cases if you have not mastered the basics.

4. For the final exam, students will be expected to prepare a written analysis of an assigned case, complete with a financial analysis and any other appropriate tables. The exam is tentatively due on **Monday, May 2; this date is subject to change.** Class does not meet on that day. Please submit your exam by email directly to the instructor; *do not* submit this product via Blackboard. **You are responsible for making sure that any tabular material is set up to print properly on standard 8 ½ x 11 paper.**

**GRADING**

Grades will be based on case analyses, exams, and class participation, as shown:

- Three Case Analyses 15% each
- Mid-Term Examination 15%
- Final Examination 25%
- Class Participation 15%

Late submissions will be penalized, with the extent of the penalty depending on the degree of lateness. Submission of a case analysis after you have listened to the class discussion of the case will result in a full grade level penalty (e.g. from "A" to "B"). **All graded assignments must be completed to receive a course grade.** A course grade of "Incomplete" will be granted only in exceptional circumstances and must be arranged, in writing, before the last class session. (See also discussion of grades in the Graduate Bulletin.)

**STANDARDS OF STUDENT CONDUCT**

Academic work, like the practice of professional planning, is governed by standards of ethical conduct. Students are encouraged to form study groups to prepare the cases for class discussion. However, **all written work, including tabular material, is to be your individual, original work.** Plagiarism of any kind will result in a failing grade on the assignment in question. Severe misbehavior may lead to a grade of F in the course, and may subject the plagiarist to disciplinary action by the University. This is not a common problem, but when it occurs, the Department and the University take it very seriously. If you are uncertain about what constitutes plagiarism, discuss the matter with me before engaging in the questionable behavior and/or consult the guidance provided in the University’s policy statement on academic integrity at: [www.doso.wayne.edu/judicial/academic-integrity.htm](http://www.doso.wayne.edu/judicial/academic-integrity.htm).

**STUDENTS REQUIRING ACCOMMODATION**

If you have a documented disability that requires accommodations, you will need to register with Student Disability Services (SDS) for coordination of your academic accommodations. The Student
Disability Services (SDS) office is located at 1600 David Adamany Undergraduate Library in the Student Academic Success Services department. SDS telephone number is 313-577-1851 or 313-577-3365 (TDD only). Once you have your accommodations in place, I will be glad to meet with you privately during my office hours or at another agreed upon time to discuss your needs. Accommodations cannot be applied retroactively, so you should get your accommodation letters as early in the semester as possible.

Student Disability Services’ mission is to assist the university in creating an accessible community where students with disabilities have an equal opportunity to fully participate in their educational experience at Wayne State University. Also see: [http://studentdisability.wayne.edu](http://studentdisability.wayne.edu)
CLASS SCHEDULE

January 9    Introduction to Real Estate Development; Stedman Place (Case Discussion)
January 16   HOLIDAY – CLASS DOES NOT MEET
January 23   Pro Forma I: Net Operating Income (NOI), Before Tax Cash Flow (BTCF), and After Tax Cash Flow (ATCF)
February 30  Revere Street (Case Discussion)
February 6   Pro Forma II: Net Cash from Sale, Future Benefits (Discounting, NPV, IRR), and Participation Mortgages
February 13  *Angus Cartwright (Case Discussion)
February 20  Grosvenor Park (Case Discussion)
February 27  *Feasibility Study Exercise (Case Discussion)
March 6      Mid-term Examination
March 13     SPRING BREAK
March 20     Canyon Johnson (Case Discussion)
March 27     *Concord Center (Case Discussion)
April 3      Richard Broder of Broader & Sachse will present this class.
April 10     *Textile Building (Case Discussion)
April 17     Guest Presenter
April 24     Guest Presenter
May 1        Take Home Final Exam Due

*INDICATES THAT A WRITTEN CASE ANALYSIS IS DUE.
COURSE SYLLABUS

January 9 INTRODUCTION TO REAL ESTATE DEVELOPMENT

Reading: "Stedman Place: Buy or Rent" by Andre Perold and David Scharfstein (HPS Case #9-207-063, September 2006).

January 16 HOLIDAY – CLASS DOES NOT MEET

January 23 PRO FORMA I: NET OPERATING INCOME (NOI), BEFORE TAX CASH FLOW (BTCF), & AFTER TAX CASH FLOW (ATCF)

Readings:


Study Exercises Due: “Debt Service Exercise” and “Depreciation Exercise”

January 30 REVERE STREET


Be prepared to discuss the following questions:

1. How did Alexander search for his property?
2. How would you evaluate the Revere Street property? What are the risks and rewards?
3. How would you evaluate Alexander’s search for a mortgage?
4. What do the numbers look like? Should Alexander make this investment?

Study Exercise Due: Turn in a proforma for the Revere Street property in its first stabilized year, including both before tax and after tax cash flows. Specify any assumptions you make.
February 6 PRO FORMA II: NET CASH FROM SALE, FUTURE BENEFITS (NPV & IRR), AND PARTICIPATION MORTGAGES

Readings:


Study Exercise Due: "NPV and IRR Exercise"

February 13 ANGUS CARTWRIGHT


Written Case Analysis Due (see instructions on Blackboard)

February 20 GROSVENOR PARK


Be prepared to discuss the following questions:
1. Evaluate Dubin’s performance to date. What are the risks he faces in this project? How has he managed those risks? What should he do going forward?

2. Assess the demands of the Planning Department. Are they reasonable? How would they affect his financial returns? What would you do if you were Dubin?

3. Would Grosvenor Park appeal to you as a place to live? As an investment vehicle? How does the development of single family homes differ from the development of multifamily homes?
FEASIBILITY STUDY EXERCISE

Readings:
"Feasibility Study Exercise" (Case and programmed learning exercise prepared by Edward H. Marchant.) (On Blackboard).

Mike E. Miles, Gayle Berens, and Marc A. Weiss, Real Estate Development: Principles and Process, 3rd ed. (Washington DC: Urban Land Institute, 2000); read the section on Construction Loans (p. 72) & the sections on Construction and Permanent Financial (p. 76-7). (On Blackboard)

Written Assignment Due: Submit at the beginning of class answers to all of the questions listed at the end of "Feasibility Study Exercise." Please retain a copy of your submission for use during the class discussion. YOU WILL NOT GET THIS ASSIGNMENT BACK BEFORE THE MID-TERM EXAMINATION.

March 6 MID-TERM EXAMINATION

March 13 SPRING BREAK

THE FOLLOWING MATERIAL IS ILLUSTRATIVE, BASED ON WHAT HAS BEEN DONE IN THE PAST. IT WILL BE REVISED BASED ON STUDENT INTEREST AND SPEAKER AVAILABILITY. DUE DATES FOR WRITTEN ASSIGNMENTS WILL BE FINALIZED WELL IN ADVANCE SO YOU CAN PLAN ACCORDINGLY.

March 20 Canyon Johnson Urban Fund (Case Discussion)


Be prepared to discuss the following questions:

1. What are Canyon Johnson’s Urban Fund’s internal rates of return for the Sunset and the Hollywood Projects? (CJUF believes that it can obtain debt financing at a 5% interest rate for a term of 25 years. In your evaluation of Hollywood and Highland, disregard the fund’s option for partial ownership of the hotel.)

2. Which project should Turner choose, and why?
March 27

*Concord Center (Case Discussion)*


Written Case Analysis Due: Assume the role of Jennifer White. Prepare a memorandum to the senior partner of Morgan Sachs recommending what action the firm should take. Your memo should be based on a thorough analysis of the location of the project, the market, the project and the partners. Given that analysis, do you think this project will be successful? How would you structure the financing and ownership? If additional capital is required, who should provide it and on what terms?

REMINDER: All students must submit a written analysis of either this case or the Textile Corporation Building.

April 3

Guest Presenter

Richard Broder of Broader & Sachse will present this class. His presentation will focus on The Scott at Brush Park, a high end residential development with ground floor retail that is leasing this winter. There is no assigned reading.

April 10

*Textile Building (Case Discussion)*


Written Case Analysis Due: Assume the role of a project analyst reporting to Martin Donwill. Write a memo advising him about how much he should bid for the property and why. It should include your assessment of the ways in which he proposes to increase the building’s cash flow, and which ones likely give him an advantage over other bidders. Attach your financial analyses.

REMINDER: All students must submit a written analysis of either this case or Concord Center.

April 17

Guest Presenter – To Be Announced

April 24

Guest Presenter – To Be Announced

May 1

Take Home Final Exam Due