Real Estate Investments – MBA 748 001 (Fall 2011)

INSTRUCTOR: Coleman Rector  
Weber Rector Commercial Real Estate Services, Inc. &  
The Rector Companies, LLC  
Direct (703) 366-3189  
Cell (703) 929-0123  
coleman@Weber-Rector.com  
coleman@RectorCompanies.com

LOCATION: Fairfax Campus – Enterprise Hall 277

TIME: Tuesdays 7:20-10:00PM

TEXTBOOK: Real Estate Finance & Investments: Risks and Opportunities, 2nd Edition. Peter Linneman, PhD

SOFTWARE: Microsoft Excel

BLACKBOARD SITE: Class notes will be posted on Blackboard. Students should print off a copy of the notes & bring them to class. Along with class notes, other pertinent information necessary for class will be posted. Students shall print off and bring a copy of any information posted on Blackboard to that particular class.

Message boards will be established for Students and Professor to post questions & answers to issues and problems they may have, as well as notices and directions for a particular class.

I will communicate with you via Blackboard. It is imperative that you have your Blackboard messages forwarded to your email account.

CALCULATOR: Hewlett-Packard 12-C. Functions Required: PV, NPV, IRR, amortization, etc. If you are not familiar with the HP-12-C, read the manual, it is a textbook within itself. If you don’t have a manual, email me, and I will send you one. **If you don’t know how to use the HP-12c, you MUST take the time to learn it. You will not be able to function in this class without knowing how to use the HP-12c.**

*Please turn off all cell phones during class!*
ACADEMIC INTEGRITY;
GMU is an Honor Code University; please see the University Catalog for a full description of the code and the honor committee process. The principle of academic integrity is taken very seriously and violations are treated gravely. What does academic integrity mean in this course? Essentially this: when you are responsible for a task, you will perform that task. When you rely on someone else’s work in an aspect of the performance of that task, you will give full credit in the proper, accepted form. Another aspect of academic integrity is the free play of ideas. Vigorous discussion and debate are encouraged in this course, with the firm expectation that all aspects of the class will be conducted with civility and respect for differing ideas, perspectives, and traditions. When in doubt (of any kind) please ask for guidance and clarification.

GMU EMAIL ACCOUNTS;
Students must activate their GMU email accounts to receive important University information, including messages related to this class. It is imperative that you have your Blackboard messages forwarded to your GMU email account.

OFFICE OF DISABILITY RESOURCES;
If you are a student with a disability and you need academic accommodations, please see me and contact the Office of Disability Services (ODS) at 703 993-2474. All academic accommodations must be arranged through the ODS. http://ods.gmu.edu

UNIVERSITY POLICIES;
The University Catalog, http://catalog.gmu.edu, is the central resource for University policies affecting student, faculty, and staff conduct in University affairs.

COURSE DESCRIPTION:
Review factors needed to conduct an investment analysis: market analysis, marketability, feasibility, finance, and tax. This course focuses on forecasting project viability and estimating discounted present value and investor internal rates of return. Topics include analytical techniques of valuation including after tax cash flow analysis, lease and expense analysis, sensitivity analysis, and many real world examples.

MS IN REAL ESTATE DEVELOPMENT PROGRAM LEARNING GOALS:
Knowledge of Functional Disciplines: graduates will acquire and demonstrate the capability to apply knowledge from relevant fields in understanding complex situations.

Critical Thinking and Analytical Decision Making: graduates will demonstrate the ability to develop models for understanding cause-and-effect relationships and for predicting the likely outcomes of feasible choices and for assessing the risks involved.

Understanding Multiple Perspectives and Interests: graduates will demonstrate an understanding of how differences among individuals and groups in values and perspectives will influence the development process.

Leading and Managing Complex Projects: graduates will demonstrate an understanding of the capabilities necessary for organizing and coordinating the activities involved in real estate development.

Professional and Ethical Responsibility: graduates will possess and demonstrate an understanding of the importance of professional and ethical conduct.
COURSE OBJECTIVE:

To learn and practice real estate investment analysis and feasibility techniques of various types of real estate as practiced by real estate professionals. Topics include project cash flow analysis, net present value, internal rates of return, and sensitivity analyses applied to investment uncertainty. Students must be familiar with present and future value concepts.

METHODODOLOGY:

Lectures, class discussion, readings, guest speakers, preparation & discussion of case studies, and a team project. Instructor will explain to students actual investment and development projects the instructor is currently working on, on a real time basis.

TEXT:

Students should read and be prepared to discuss the assigned chapters on the indicated dates. Students will be called upon in class to discuss the readings. If it is apparent that the student is unprepared and did not read the material, their class participation grade will reflect it.

CASE STUDIES:

Three case studies are assigned. They require a written presentation and should address the discussion questions assigned by the instructor. Cases are due and will be discussed during the class designated on the syllabus. E-mailed cases will be permitted if the student is unable to attend class. Late cases will be penalized.

TEAM PROJECT:

Students will be divided into groups. Each team is responsible for preparing a detailed analysis, discounted cash flow valuation and disposition strategy for a real estate investment property. Project parameters will be given to the student early in the semester. The team should take the project through the real estate investment process and develop a comprehensive strategy from an investment manager’s viewpoint.

The background information presented with the case is not adequate to complete the analysis. Assumptions must be made! However, assumptions must be explained and supported with concepts, material, ideas, etc. relevant to the course. The written presentation must make and explain assumptions. Each team will make a verbal presentation to the class on November 29 & December 6. Each team member must participate in the verbal presentation.

Due Date: November 29 & December 6

GUEST LECTURERS;

I will invite several real estate industry leaders to come into the class and guest lecture on their expertise and real estate experience. Lecturers and their scheduled dates will be announced throughout the semester. Students are expected to make every effort to attend the special lecture classes, be briefed on the provided material and have an interactive discussion with the special guest with lots of informative questions.
**GRADING POLICY:**

**Grading Policy:** Note exam dates and schedule accordingly. Grade weighting as follows:

- Midterm Exam: 10%
- Final Exam: 10%
- Three Case Studies: 45%
- Team Project: 25%
- Class Attendance, Problems & Participation: 10%

**COURSE SCHEDULE:**

Class 1 – August 30  
Overview of Course, Text  
Prerequisites: DCF, NPV, IRR, Amortization  
Linneman: Acknowledgements, Preface, About the Author, Prerequisite I, II, III, Pages 198-223  
Homework & Basic Financial Tools Problems

Class 2 – September 6  
Risks and opportunities.  
What is real estate?  
Linneman: Chapters 1 & 2  
**Case #1 Assigned**

Class 3 – September 13  
The Fundamentals of Commercial Leases  
Property Level Pro Forma Analysis  
Linneman: Chapters 3 & 4

Class 4 – September 20  
Review Actual Leases  
Financial Modeling  
Read Leases Posted on Blackboard  
Linneman: Chapter 5  
Prerequisite I, II, & III; Pages 198-223 (again)  
**Case #1 Due**

Class 5 – September 27  
Real Estate Due Diligence, Selection of Cap Rates  
Linneman: Chapters 6 & 7  
**Case #2 Assigned**

Class 6 – October 4  
Development Pro Forma Analysis  
Linneman: Chapter 8  
**Midterm Exam**

Class 7 – October 11  
Development Feasibility Analysis  
Real Estate Company Analysis  
Real Estate Bankruptcy Basics  
Linneman: Chapters 9, 10 & 11  
**Case #2 Due**

Class 8 – October 18  
Should You Borrow?  
The Use of Debt & Mortgages  
Linneman: Chapters 12 & 13  
**Case #3 Assigned**
<table>
<thead>
<tr>
<th>Class Date</th>
<th>Topic</th>
<th>Readings</th>
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| Class 9 – October 25 | Commercial Mortgage Backed Securities  
Ground Leases as a Source of Finance  
Linneman: Chapters 14 & 15  
Supplemental I & II; Pages 224-237  
**Team Projects Assigned** |                                                                      |
| Class 10 – November 1 | Real Estate Exit Strategies  
Real Estate Private Equity Funds  
Linneman: Chapters 16 & 17  
**Case #3 Due** |                                                                      |
| Class 11 – November 8 | REITs & Liquid Real Estate  
Corporate Real Estate Decision Making  
Team Project / Consult with Instructor  
Linneman: Chapters 18 & 19 |                                                                      |
| Class 12 – November 15 | Real Estate Cycles &  
There Are a Lot of Right Ways to Do It  
Team Project / Consult with Instructor  
Linneman – Chapter 20 & 21 |                                                                      |
| Class 13 – November 22 | **Team Project Presentations**  
Consultant Time with Instructor |                                                                      |
| Class 14 – December 6 | **Team Project Presentations** |                                                                      |
| Class 15 – December 13 | **Final Examination**  
Class Review |                                                                      |