



*Financial Calculator:* You must have a financial or programmable calculator that can compute annuities/present values. You are responsible for knowing how to use these functions. You will need the calculator to take the exams.

**Grading:** Your grade will be determined by 3 cases and the exams.

*Exams:* The exams count for 50% of the course grade. You can opt for taking the final exam only or a midterm and the final. If you take only one exam 50% of your grade will be determined by your performance in the final. If you decide to take both exams and your midterm grade is higher than your grade in the final, the midterm will account for 20% and the final for 30%. Otherwise the final will account for 50% of the grade. Note that there is no downside to taking the midterm. Thus I strongly encourage everyone to do so. The midterm will cover material from lectures 1-12. The final will cover all material examined in class or in the class notes. The readings are provided to help you better understand concepts covered in class. Material that is in the readings but was not covered in class or in the class notes is not required for the exams. *Exams must be taken at the assigned time. **The final exam must be passed in order to receive a passing grade for the course.** Make-ups are not given unless you have a Wharton Dean's Office-approved excuse.*

*Cases:* The class will have three cases, which will be worth a total of 50% of your grade. Cases are group projects. Cases will be handed out in class and posted on the Web Café when possible. All cases are due at the beginning of class prior to the case discussion. You can choose your own group, with a recommended size of 3-4 members, but you must work with the same group on all cases. Under no circumstances may you have more than 4 members in a group, but groups of 2 people are acceptable. While it is preferable to form groups within your section, group members may come from other sections if absolutely necessary, but the case must be handed-in for the earliest section of all group members. I will set up a folder on the Web Café for people looking to find a group or for groups looking to add members. You are ultimately responsible for finding your own group. Do not wait until the last minute.

*Each case will also have a strict page limit. Any pages that exceed the page limit will be removed and returned, unread. Collaboration between groups is not allowed. Late cases will not be accepted nor will extensions be given without approval from the Wharton Dean's Office.*

Case #1- will count for 20% of your grade.

Case #2 & Case #3 will count for 15% of your grade each and will be completed by each group.

*Homework:* Homework sets will be posted on the Web Café periodically during the semester, but will not be handed-in or graded. Solutions will be posted on the Web Café.

*Re-grading:* All requests for re-grades must be submitted, in-writing, within 2 weeks of the return of a case/exam. You must submit the entire case/exam, along with a point-by-point analysis of what you think was scored incorrectly. Please look at the solution set prior to requesting a re-grade. If you would like to meet to go over a case/exam and want to talk about the grade, please submit give me the case in advance of the meeting so I can be prepared to talk about the case/exam.

## Course Outline

*A number of sessions will be held outside of regular class hours to accommodate outside speakers. These sessions will be videotaped. You are responsible for the material and concepts presented in these lectures. Classes denoted with an \* have no class notes. Reading denoted with † are optional.*

1. Sept. 3: Course requirements, class overview, and overview of real estate markets

**Bulk pack #1:** *Emerging Trends in Real Estate 2003*, chapters 1-3. [This article provides a nice overview on the current state of the real estate industry]

**Linneman: ch.1 and ch.2**

† [Optional: *Emerging Trends in Real Estate 2003* chapter 5. Document available at:

[http://www.lendlease.com.au/llweb/llc/main.nsf/images/pdf\\_2003emergingtrends.pdf/\\$file/pdf\\_2003emergingtrends.pdf](http://www.lendlease.com.au/llweb/llc/main.nsf/images/pdf_2003emergingtrends.pdf/$file/pdf_2003emergingtrends.pdf)]

2. Sept. 8: Basic Pro Forma Tools: Income and Expense Analysis: calculating effective rent and office leases

**Bulk pack #2:** Martin: *Nine Abuses Common in Pro Forma Cash Flow Projections*

**Linneman: ch.4**

3. Sept 10: *Class cancelled: Attend to Sam Zell's talk (noon):* JMHH Auditorium G06

4. Sept. 15: Lease Analysis and Cash Flows: incentives for landlords and tenants and strategic use by mall owners

**Linneman: ch.3**

5. Sept. 17: Property Valuation Techniques

**Linneman: ch.7**

6. Sept. 22: Mortgages and Mortgage Mechanics: obtaining a mortgage and borrowing capacity

**Linneman: ch.13**

**Bulk pack #3:** Arnold and Oharenko: *Guide to Real Estate Capital Markets: Participating Debt and Equity*. [Do your best to wade through. Don't worry about the "Parameters" sections.]

† [Optional Brealey and Myers, *Principles of Corporate Finance*, chapter 3: "How to Calculate Present Values."]

7. Sept. 24: Debt Structures: types of debt and the refinancing decision; Risk and Real Estate Investing

**Linneman: ch12**

**Bulk pack #4:** Siskind: *Structuring and Documenting Convertible Mortgages*

8. Sept. 29: Taxes and Real Estate Valuation; taxes in the pro forma; income and disposition taxes

9. Oct 1: The Tax Code and Scenic Vista Pro Forma: tax reforms and RE markets

**Read Scenic Vista Pro Forma** and come to class prepared to discuss

10. Oct. 6\*: **Case #1 due.** Case discussion

11. Oct. 8: Corporate Real Estate Issues: Ownership and Deal Structuring; ownership structures, joint ventures; sale leasebacks

**Bulk pack #5:** Freedman: *Structuring a Landowner/Developer Joint Venture Agreement*

**Bulk pack #6:** Price and Edmonds: *Limited Liability Companies as Investment Vehicles*

12. October 13\*: *Columbus day: review sessions (attendance optional)*

13. October 15: exam Midterm #1 (optional)

14. October 20: Why Do Corporations Own Real Estate: the corporate rent-own decision

**Bulk pack #7:** Deng and Gyourko: *Real Estate Ownership by Non-Real Estate Firms*

†[Optional reading on Web Café: Goolsbee and Maydew: Taxes and Organizational Form: The Case of REIT Spinoffs]

15. Oct. 21: Attend Zell-Lurie Real Estate Center Fall Meeting at the Inn at Penn—For the agenda, go to: [http://realestate.wharton.upenn.edu/meeting\\_fall03.php](http://realestate.wharton.upenn.edu/meeting_fall03.php)

16. Oct. 22: Real Estate Cycles: Pricing and Vacancies in Commercial Markets

17. Oct. 27: Introduction to Real Estate Capital Markets

**Bulk pack2 #1:** Gyourko and Sinai: *The REIT Vehicle: Its Value Today and in the Future*

**Bulk pack2 #2:** Han: *To Securitize or Not To Securitize: The Future of Commercial Real Estate Debt Markets*

18. October 29\*: **Case #2 due:** Discussion and answers

19. Nov. 3: REIT Finances: How to Build Your Own REIT

**Linneman: ch.18**

**Bulk pack2 #3:** Deutsche Banc Alex. Brown: REITs for Rookies

**Bulk pack2 #4:** Cushman & Wakefield, Inc. and Apogee Associates, LLC: *UPREITs: A Vehicle for Tax Deferral and Growth*

examine:

*NAREIT Chartbook*, October 2003 (will be Posted on Web Cafe).

20. Nov 5 **Robert Lieber**, *Managing Director, Lehman Brothers.*, special guest lecture, (6 pm - 7:30 pm), venue TBA\*\*\*

21. Nov. 10: Growth of Public Equity Markets; REIT Structuring

22. Nov. 12: Debt Securitization, Part I: CMBS Markets and Structures

**Linneman: ch.14**

**Bulk pack2 #5:** Gordon: *How to Build a Bond*

**Bulk pack2 #6:** Gordon: *The CMBS Market Learns a Lesson: Wall Street is a Two Way Street*

**Bulk pack2 #7:** New York Times: *Sidetracking the Locomotive of Capital America*

**Bulk pack2 #8:** New York Times: *Lending Without a Net*

23. Nov. 17\*: **John Weaver**, Executive Vice President, GMAC Commercial Mortgage Corp., special guest lecture, (6 pm - 7:30 pm), venue TBA

24. Nov. 19: Debt Securitization, Part II: CMBS Risks and Pricing

25. Nov. 24\*: Case #3 due; discussion and answers

26. Nov. 26\*: Class canceled, Happy Thanksgiving!!

27. Dec. 1: Housing Markets, Cycles, and Real Estate in the Investment Portfolio

**Bulk pack2 #9** Mayer: *Gifts for Home Purchase and Housing Market Behavior*

**Bulk pack 2 #10:** Mayer: *Taxes, Income Distribution, and the Real Estate Cycle: Why All Houses Do Not Appreciate at the Same Rate*

28. Dec. 3: To Buy or Not To Buy: The Rent/Own Decision for Individuals

29. Dec. 8: Real Estate Auctions. Course Review.

30. Dec 17: Final Exam