

University of Pennsylvania
The Wharton School
REAL & FNCE 209
REAL ESTATE FINANCE: INVESTMENT & ANALYSIS
FALL 2003
Monday and Wednesday
12-1:20 p.m.
3-4:20 p.m.
Lauder-Fischer Auditorium

Prof. Peter Linneman (call me Peter)
Office Hours: Sign up sheets at Zell/Lurie Center
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Your grade in the course is determined by your aggregate performance with assignment points as follows:

- Midterm exam (50pts)
- End term exam (50pts)
- Shopping Center Case (50 pts)
- Build to Suit Case (50 pts)
- Rockefeller Center Case (50 pts)
- Welcome to the Big Leagues Case (50 pts).

There is no opportunity for “extra credit,” “make up assignments,” etc.

The dates and times for all assignments are final. No changes will be permitted for any reason. Failure to complete any exam or hand in any case on time will result in zero points for that exercise. This means that any case handed in after the designated due time will absolutely not be read, and zero points will be given for the assignment.

Incompletes are not given without written permission of the Wharton Dean's Office.

The material presented by guest lecturers is an integral part of the course and you are responsible for the material and concepts presented in these lectures. Several sessions will be jointly held and videotaped. Videos can be accessed through Wharton AV. You are responsible for the material covered in these sessions.

Your bulkpack contains supplemental reading materials and is available from Wharton Reprographics. The required text for the class is my book, *Real Estate Finance and Investments: Risks and Opportunities*. If you cannot surmise that I think that the text material is important, you deserve what you get. While I will not “teach the text”, you are responsible for the material covered in the text. The bulkpack articles are readings that give you a better understanding of the major issues and trends in the industry. These articles will not "be taught" but provide valuable context. Bulkpack readings are noted in quotation marks (“ ”), while text readings are noted as “Chapter X”.

If you have questions on any assigned readings, it is your responsibility to ask them in class. I will frequently ask, "Any questions?" Use this opportunity to ask any questions you have, either on material covered in the assigned readings or previous lectures. When you have a question about the class or class materials, ask it then (not one minute after class as I try to get to my next class, dealing with the 15 students who one minute earlier had no questions). My experience is that if you have a question, you are never alone. Be brave. Remember that since your classmates are already convinced that you are an idiot, your question will not lower their opinions of you.

Finally, mastery of a financial calculator is required. You are responsible for knowing how to use all of the relevant functions. You are also responsible for generating understandable computer financial models. **If you do not know how to use these tools, it is your responsibility to obtain these skills.**

COURSE SCHEDULE:

- 9/3 Introduction: Balancing risks and opportunities
Readings: Chapter 1
"Marshall Bennett Classic 2003"
Richard Georgi "The Past and Future for Real Estate"
Zell "Real Estate: Past, Present, and Future"
- 9/8 What Is Real Estate?
Readings: Chapter 2
Conway "The Equitable Chronicles"
Kohn "Advancements in Technology"
Downs "REIT Share Prices and the Declining Relative Importance of Commercial Real Estate"
Vandell and Green "The Impact of Technology on Commercial Real Estate"
- 9/10 COMBINED CLASS 12 Noon: Sam Zell Guest Lecture
- 9/15 COMBINED CLASS 12 Noon: Real Estate Pro Forma –Adam Anhang
Readings: Chapter 4
Vernon Martin III "Nine Abuses in Pro Forma Cash Flow Projections"
Jeffrey Fisher, et. al. "How Reliable Are Commercial Appraisals? Another Look"

NOTE: TWO SESSIONS ON THIS DAY

9/17 COMBINED CLASS 12 Noon: Financial Analysis
Readings: Chapter 5 and Prerequisites I and II

COMBINED CLASS 3PM: Leases Matter

Readings: Chapter 3

Taubman "Mall Myths"

Rybczynski "The Changing Design of Shopping Places"

Linneman and Moy "The Evolution of Retailing in the United States"

9/22 No Class

9/24 Real Estate Cycles

Herring and Wachter "Real Estate Booms and Banking Busts"

9/29 COMBINED CLASS 12 Noon: Due Diligence –Gerry Ronan and Stuart Askot

Readings: Chapter 6

Due Diligence List

Stephan Roulac "Institutional Real Estate Investing Processes, Due Diligence Practices and Market Conditions"

10/1 Cap Rates

Readings: Chapter 7

10/6 Shopping Center Case due at my office by 11 am (late cases will not be read – even if it is your teammate's fault). Case discussed in class.

10/8 Midterm Exam

10/13 Fall Break

10/15 Development Risk and Returns

Readings: Chapters 8 & 9

Volk and Zimmerman "Development Dynamics"

Terwilliger "Developer: Villain or Hero"

Linneman "Will We Need More Office Space?"

Ambrose, Linneman, Wachter "The Wharton Real Estate Index"

Gyourko and Rybczynski "Financing New Urbanism"

Joseph A. Brown "Saving Historic Treasures"

Rybczynski "Godfathers of Sprawl"

Rybczynski "Living Downtown"

10/20 Development Analysis

10/22 Real Estate Companies

- Readings: Chapter 10
Norma Cohen “Depreciation is a word the property industry doesn’t recognize”
Jon Hammer “The Entrepreneurial Mind”
Jennifer Lyons “NAV: What Are REIT Shares Worth?”
FBR Report on EOP
- 10/27 Debt and Mortgages
Readings: Chapters 11 & 12
- 10/29 Debt and Mortgages
Readings: Chapter 13, Chapter 15, and Prerequisite Chapter III
Riddough “Determinants of Commercial Mortgage Choice”
Lynn Zuckerman Gray “Credit Tenant Lending”
Kerry Vandell “The Mortgage REITs: Dynamos or Duds?”
Easki et. al. “Commercial Mortgage Defaults”
- 11/3 Build to Suit Case due at my office by 11am (late cases will not be read – even if it is your teammate’s fault). Case discussed in class.
- 11/5 CMBS
Readings: Chapter 14 and Supplemental II
Poindexter “Defaults in Securitized Real Estate Loans”
Arlene Isaacs-Lowe “Five Key Factors Help Determine Credit Ratings”
“Lehman Brothers CMBS Surveillance”
- 11/10 CMBS

NOTE: TWO CLASS SESSIONS ON THIS DAY

11/12 COMBINED CLASS 12PM: Liquid Real Estate: Guest Lecture Douglas Crocker

Readings: Chapter 18

Linneman “(When) Will We Do It Again?”

Downs “The Pressures on Public REITs to Grow Larger”

Zell “Liquid Real Estate”

Crocker “Inside the Revolution”

Anderson and Rosen “Equity REIT Strategies”

Ambrose and Linneman “The Linkage Between Public And Private Pricing”

Mikulich and Kaplan “Evolution In the Real Estate Capital Markets”

COMBINED CLASS 3PM: Liquid Real Estate

Ambrose and Grigsby “Mixing Income Groups in Public Housing”

Gyourko and Sinai “REITs and Taxes”

Linneman “Should Commercial Real Estate Be Included in the S&P 500”

Linneman “The Forces Changing Real Estate Forever: Five Years Later”

Winograd “The Five Overlooked Features of the Real Estate Capital Markets”

Rosen “REITs as an Alternative Investment in Volatile Financial Markets”

Falzon “Stock Market Rotations and REIT Valuation”

11/17 Exit Strategies

Readings: Chapter 16

David Marcus “Like-Kind Exchanges”

11/19 Real Estate Private Equity

Readings: Chapter 17

Linneman and Ross “Real Estate Private Equity Funds”

Reiss, et. al. “Opportunistic Investing and Real Estate Private Equity Funds”

Linneman “Immobilie als Asset: Real Estate Private Equity Funds”

Linneman and Moy “Understanding the Return Profiles of Real Estate Investment Vehicles”

11/24 Rockefeller Center Properties Case due at my office by 11am (late cases will not be read – even if it is your teammate’s fault). Case discussed in class.

11/26 No Class due to Thanksgiving

12/1 Corporate Real Estate

Readings: Chapter 19

Linneman “The Coming Disposal of Corporate Real Estate”

Linneman “Corporate Real Estate Strategies”

Linneman “International Real Estate Investing”

Elias Woudenberg “The Impact of Corporate Real Estate on Corporate Economics”

12/3 Decision Making in the Face of Reality

Readings: Chapter 20
McCoy "Real Estate Ethics"

12/8 Second half term exam

Welcome to the Big Leagues Case due in my office as 11AM. Case also discussed in class.