

The Wharton School, University of Pennsylvania

**Real Estate Finance: Investment & Analysis  
Spring 2005**

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1461 Steinberg Hall – Dietrich Hall

Office Hours:

Wednesday 10:00-11:30

Textbook:

I will assign chapters from Peter Linneman's "Real Estate Finance & Investments: Risks and Opportunities" first edition as the main reference material. The book is a great introduction to the Real Estate topics that we will address in class. Linneman's practical approach and wide coverage make the book an extremely useful resource. The book is available at the Penn Bookstore, and it is on reserve at the Lippincott Library. For the interested student, two other alternative textbooks are "Commercial Real Estate Analysis and Investments" by Geltner and Miller and "Real Estate Finance and Investments" by Brueggman and Fisher (both textbooks follow a different sequence than the class, and they also do not cover a number of topics in this class).

Readings:

A bulk pack is available from Wharton Reprographics. The supplemental readings give you a better understanding of the major issues and trends in the industry.

Web Café:

I encourage you to become familiar with the course web page on Wharton's Web Café. All class notes, case materials and case groups will be posted on the page, as well as the latest class announcements. **Important:** you should not consider the class notes to be a substitute for attending class. Instead, they are best used as a guideline to make taking notes easier.

**Non-Wharton students** will need to apply for a Wharton account in order to get access to the Web Café. Check out: [https://accounts.wharton.upenn.edu/account\\_user/](https://accounts.wharton.upenn.edu/account_user/).

Grading:

The dates and times for all assignment are final, and must be strictly adhered to. 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. The course grade ranges from 0 to 100 points and will be based on two exams and three cases.

*Exams:*

Two midterm exams count for 40 points of the course grade (20 points each). The second midterm will not be inclusive of the materials in the first midterm, but you are

expected to be familiar with the basic concepts. You are responsible for the materials discussed in class, class notes, class handouts, and assigned readings. Exams must be taken at the assigned time. **Make-ups are not given unless you have a Wharton Dean's Office-approved excuse.** For a medical excuse, you must have been admitted to student health or the hospital, and/or have a doctor's note explaining that you were incapacitated.

Cases:

The three cases constitute 60 points of your grade (20 points each). Cases are group projects and require a variety of skills, from financial savvy to management. All cases are due at 10 am (at my mailbox). All groups will be randomly assigned, and new groups will be randomly formed for each case. You are responsible to make the team work. If you think a teammate is not working with good faith, or has neglected to finish her/his share of work, you must try hard to work it out within the group. If you still feel aggrieved after the case is done, send me an email with your name, the case, the offending group member and the nature of the problem. If two or more serious complaints are registered against you, 5 points will be deducted from your grade for each complaint.

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 Wharton Division's Office.

On case days attendance is absolutely mandatory. At the start of class on case days, I will randomly select 10 students to come to the front of the room to take part in a 40-minute "management meeting" discussion of the case. I will chair this management meeting. If you are not present when your name is called, 5 points will be deducted from your score. As a professional, it is assumed that you are very well prepared for participation in management meetings. I expect clear, concise and well articulated answers to questions posed during those meetings.

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. If you do not know how to use these tools, it is your responsibility to obtain these skills. You will need the calculator to take the exams.

TAs:

There will be TAs who will grade the cases and hold office hours before the cases are due.

## **Course Outline**

### **Part I. Real Estate Fundamentals, Property Cash Flow and Development**

- January 11: Introduction to Real Estate Markets  
Linneman, chapters 1 and 2  
Zell, “Real Estate: Past Present and Future”  
“Marshall Bennett Classic 2004”
- January 13: Leases  
Linneman, chapter 3  
Rybczynski “The Changing Design of Shopping Places”  
Linneman and Moy “The Evolution of Retailing in the United States”
- January 18: Basic Pro Forma Tools  
Linneman, chapter 4  
Vernon Martin III “Nine Abuses in Pro Forma Cash Flow Projections”
- January 20: Pro Forma Creation and Financial Analysis  
*Guest Lecture:* Jared Prushansky, Lubert-Adler
- January 25: More on Cash Flows and Financial Analysis  
Linneman, chapter 5, and pre-requisites I and II
- January 27: Cap Rates and Property Valuation Techniques  
Linneman, chapter 7
- February 1: Real Estate Cycles  
Linneman, chapter 20
- February 3: Case #1 due (Westwood Plaza) and case discussion
- February 8: Development  
*Guest Lecture:* Ronald J. Terwilliger, Trammell Crow Residential  
Linneman, chapters 8 and 9  
Terwilliger “Developer: Villain or Hero”  
Gyourko and Rybczynski “Financing New Urbanism”
- February 10: Real Estate Company Analysis  
Linneman, chapter 10
- February 15: Due Diligence  
*Guest Lecture:* Richard Reeves, Sunbelt Mgmt.  
Linneman, chapter 6

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

February 17: Midterm exam

## **Part II. Debt, Mortgages and Developments in Real Estate Capital Markets**

February 22: Debt and Mortgages

Linneman, chapters 11 and 12

Riddough “Determinants of Commercial Mortgage Choice”

Kerry Vandell “The Mortgage REITs: Dynamos or Duds”

February 24: Examples of Debt and Mortgages

*Guest Lecture:* Kelly Brasfield and Mark Wilsmann, MetLife

March 1: More on Debt

Linneman, chapter 13 and pre-requisite III

March 2: Case #2 due (Politics, Due Diligence and Finance)

March 3: Case #2 discussion

March: 15: Introduction to CMBS

Linneman, chapter 14 and supplemental II

Poindexter “Defaults in Securitized Real Estate Loans”

March 17: CMBS

*Guest Lecture:* Keith Belcher, Vice President, J.E. Roberts

March 22: Real Estate Private Equity Funds

Linneman, chapter 17

Linneman and Ross “Real Estate Private Equity Funds”

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

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

March 24: Introduction to REITs

Linneman, chapter 18

Zell “Liquid Real Estate”

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

Downs “The pressure on Public REITs to Grow Larger”

March 29: REITs

*Guest Lecture:* Julie Bauch, Vice President, Merrill Lynch

Crocker “Inside the Revolution”

Anderson and Rosen “Equity REIT strategies”

- March 30: Case #3 due (Rockefeller)  
March 31: Case #3 discussion
- April 5: More on REITs  
Gyourko and Sinai "REITs and Taxes"  
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"
- April 7: Exit Strategies  
Linneman, chapter 16
- April 12: Decision Making  
Linneman, chapter 19  
McCoy "Real Estate Ethics"
- April 14: The Rent/Own Decision and Housing Choice  
Ambrose and Grigsby "Mixing Income Groups in Public Housing"
- April 19: End term exam
- April 22 Zell-Lurie Real Estate Center's Spring Meeting - students are encouraged to attend the meeting.