Class Materials:

Web Café: I encourage you to become familiar with the course web page on Wharton’s Web Café. All class notes, case materials, homework sets, and homework solutions will be posted on the page, as well as the latest class announcements. Sample Excel spreadsheets from the in-class examples can also be downloaded from Web Café. In addition, if I am asked questions in office hours or by email that I think would be of general interest, I will post the question and answer in the Web Café. Past experience suggests that many students have the same question, so check the Web Café for the answers. Non-Wharton students will need to apply for a Wharton account in order to get access to the Web Café. Applications will be available online at http://accounts.wharton.upenn.edu starting on the first day of classes. This is the same requirement as for other Wharton educational computing resources, such as access to computer labs.

Class notes: Copies of the slides used in class are available from Wharton Reprographics or downloadable from the Web Café. (The notes from the first class, which I consider to be optional, are not in the Reprographics packet, but can be downloaded from Web Café.) 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.

Readings: Available from Wharton Reprographics. Some articles need to be read closely, others don’t. Throughout the syllabus, I indicate how much attention you should devote to each reading.

Practice Problems: A packet of problem sets, old exams, and solutions is available at Reprographics and is downloadable from the Web Café. The problem sets are not graded and will not be handed in.

Distribution: Occasionally, I will distribute additional materials in class. I will bring handouts
to class only once. After that, extra copies will be available outside my office
door. You can pick them up there or, if I can convert them to electronic format,
you will be able to download them from the Web Café. Your bursar account will
be billed for in-class handouts regardless of whether you pick up a copy.

Text: There is no required textbook. If you would like some reference material, you
might want to consider purchasing *Real Estate Finance and Investments* by
Brueggeman and Fisher. It should be available at the Penn Bookstore and is on
reserve at Lippincott Library. A few especially recommended chapters are listed
in the syllabus. The rest of the book provides basic background material and
some context for the concepts covered in class.

Two alternative texts, *Commercial Real Estate Analysis and Investments* by
Geltner and Miller and *Modern Real Estate* by Wurtzebach and Miles, as well as
two supplemental books, *Investing in REITs* (Block) and *A Primer on
Securitization* (Kendall and Fishman), are on reserve at Lippincott for anyone
who is interested. The Geltner and Miller text, in particular, is something you
might want to check out as an alternative to Brueggeman and Fisher although it
follows a very different sequence than the class. It’s available new or used at

Financial Calculator: You must have a financial or programmable calculator capable of
computing annuities and present values. You are also responsible for knowing
how to use these functions. Trust me, you will be very unhappy if you try to take
an exam without one of these.

Grading:

Midterm: Two midterm exams will be held in regularly scheduled class time, one on
Tuesday, March 4 and the other on Thursday, April 24. Each midterm counts for
25 percent of your grade, for a total of 50 percent. Exam 1 covers material from
overhead sets 1-12, while Exam 2 covers material from overhead sets 13-17.
Exam 2 is not cumulative in content, but assumes proficiency in basic skills
taught in the first portion of the class. Exams 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 and the exams 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. For a medical excuse, you must have been
admitted to student health or the hospital, or have a doctor’s note explaining that
you were incapacitated.*

Cases: The three cases constitute 50 percent of your grade (one-sixth for each case).
Cases will be handed out in class. The cases require a variety of skills, from financial savvy to management.

Cases are group projects. You will choose your own group, with a recommended size of four members, and must work with the same group on all three cases. Under no circumstances may you have more than five members in a group. I strongly discourage groups of two persons. MBA students may form groups with members from either of the two sections of 721. Undergraduate students in 209 must form groups with other undergraduates. Due to the diversity among the cases, you should try to have a mix of talents and backgrounds on your team. In addition, I strongly encourage you not to take the “divide and conquer” approach of having only one or two team members work on each case. You will be much more successful if the group uses a truly collaborative process.

You may discuss the cases with other groups. However, each group is responsible for preparing the case materials and writeups independently. Late cases will not be accepted nor will extensions be given.

Other:

Evening classes: Two sessions will be held in the evening 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.

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

Part I: Basic Property Cash Flow and Deal Structure Analysis

Week #1

January 14: 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. I don’t require you to remember any of the details so read the article quickly to get a general feel for real estate.]

(Optional) B&F, chapter 10: “Investment and Risk Analysis.”

Week #2


Week #3

January 28: Overhead set #6: Wraparound mortgages; Case #1 handed out.

January 30: Overhead set #7: Scenic Vista Pro Forma.

Week #4

February 3: Optional Monday evening class: Mortgage mechanics refresher class. 6:00-7:30 p.m., JMHH 240.

February 4: Overhead set #8: Pro Forma Analysis.

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

February 6: Overhead set #9: Introduction to leases; strategic use by mall owners.
Week #5

February 11: Overhead set #10: Land leases; Part I of Case #1 due.

February 13: Overhead set #11: Deal structures: participating and convertible mortgages, joint ventures.

**Bulk pack #3:** Guide to Real Estate Capital Markets: Participating Debt and Equity. [This article is a bit dry. Do your best to wade through, and don’t worry about the “Parameters” sections.]

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

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


Week #6

February 18: Remainder of Case #1 due; discussion.

February 20: Overhead set #12: Owner-occupied housing: the rent vs. own decision.

Week #7

**Part II: An Overview of Some Property Market Fundamentals**

February 25: Owner-occupied housing, continued. Other factors in housing choice. Case #2 handed out.


**Bulk pack #6:** Adjustment Mechanisms in Real Estate Markets. [A nicely written article. Worth spending some time to figure out.]

Week #8

March 4: Midterm Exam 1 in regularly scheduled class time.

March 6: Real estate cycles: pricing and vacancies in residential and non-residential markets, continued.

**Spring Break**

Week #9

March 18: Overhead set #14: Equity securitization and the REIT market

**Bulk pack #7:** An Overview of Real Estate Investment Trusts

**Bulk pack #8:** REITs for Rookies
(Optional) B&F, chapter 19: “Real Estate Investment Trusts.”

March 19: Special Wednesday evening class (6:00-7:30 p.m.): Reid Liffman, Partner, Greenebaum and Rose. “Developing Throughout the Cycle.”

March 20: Equity securitization and the REIT market, continued

**Bulk pack #9: UPREITs: A Vehicle for Tax Deferral and Asset Growth.**

*Week #10*

March 25: Case #2 due; discussion.

March 27: Overhead set #15: Evaluating REIT finances.

**Bulk pack #10: The REIT Vehicle: Its Value Today and in the Future**
**Bulk pack #11: Forces Changing the Real Estate Industry Forever**

*Week #11*

April 1: Special evening class, (6:00 – 7:30 p.m., JMHH G60): Jon Fosheim, Principal, Green Street Advisors. “Valuing REITs: Separating Myths from Reality.”

**Part III: Developments in Public Real Estate Capital Markets**

April 3: Overhead set #16: Debt securitization and the CMBS market; Case #3 handed out

**Bulk pack #12: How to Build a Bond**
**Bulk pack #13: The CMBS Market Learns a Lesson: Wall Street is a Two Way Street**
**Bulk pack #14: Sidetracking the Locomotive of Capital America**
**Bulk pack #15: Lending Without a Net**

*Week #12*

April 8: Debt securitization and the CMBS market, continued.

April 10: No class.

*Week #13*

April 15: Overhead set #17: Corporate real estate issues: lease flexibility analysis and the rent-own decision; using sale-leasebacks

**Bulk pack #16: Real Estate Ownership by Non-Real Estate Firms: The Impact on Firm Returns**

(Optional) B&F, chapter 14: “Financing Corporate Real Estate.”

April 17: Case 3 due; discussion.
Week #14

April 22: Corporate real estate issues, continued. Midterm exam review.

April 24: Midterm Exam 2.