

**REE 6395**  
*Section 03A1*  
*Investment Property Analysis*  
*Spring 2017, Module 4*

**Instructor:** Professor David Ling  
**Office:** Stuzin Hall, 301C  
**Class Times:** Tuesday & Thursday, 11:45am - 1:40p.m. (periods 5-6), Hough 140  
**Office Hours:** By appointment, after class, or Tuesday & Thursday, 2:00 - 3:30pm  
**Phone:** 273-0313--Office  
392-0153--Department of Finance, Insurance, and Real Estate (Stuzin 321)  
**E-mail:** ling@ufl.edu  
**Prof. Ling's Page:** <http://www.cba.ufl.edu/faculty/facultyinfo.asp?webid=991>  
**CRES:** For more information on the Warrington College of Business Administration's real estate programs and activities, including information on the Alfred A. Ring Distinguished Speaker Series, see the Bergstrom Center for Real Estate Studies' (CRES) website: [www.realestate.ufl.edu](http://www.realestate.ufl.edu).

### **Course Description and Objective**

The focus of this course is on the major concepts, principles, data, and analytical tools used to evaluate commercial real estate (CRE) investment decisions. The course focuses primarily on equity investments in privately-owned and traded commercial real estate, although we will also discuss real estate investment trusts; i.e., "REITs."

We will examine valuation and decision making from the perspective of "institutional" investors and market participants (e.g., banks, life insurance companies, investment management firms, pension funds, and real estate private equity funds). At the institutional level, the link between local property markets and the broader capital markets is the most intense and important.

Because we are focusing at the institutional level, this course will differ from some traditional real estate finance and investment courses focused on "Mom & Pop" individual investments. At our level of focus, we must rigorously integrate real estate investment topics with, and build our methodology upon, the modern investment perspective. However, the course is applied in nature in that the best practices of CRE professionals are taught and discussed.

Students must be familiar with the application of discounted cash flow analysis (capital budgeting) to commercial real estate investments (as is taught in REE 6045: Introduction to Real Estate). Students also are assumed to have a working knowledge of EXCEL and to be comfortable with the functions of a financial calculator.

#### *Means of accomplishing course objectives:*

1. Course is lecture oriented. However, questions and student participation are encouraged.
2. Principles will be reinforced through discussions, in-class quizzes, and problems available in the readings and lecture notes.
3. Homework assignments, done in groups, will also reinforce class material as well as expose students to the use of spreadsheet programs in real estate valuation and decision making. Concepts learned by completing the homework assignments are "fair game" for quizzes and exams.

4. In keeping with the applied nature of the course, many real world issues and “current events” will be discussed in class. In addition, you are encouraged to attend the Alfred A. Ring Distinguished Speaker Series ([www.cba.ufl.edu/fire/realestate/cres/ring.asp](http://www.cba.ufl.edu/fire/realestate/cres/ring.asp)).

### Prerequisites:

REE 6045 (Introduction to Real Estate), *or* enrollment in the Master of Science in Finance (MSF) program, *or* completion of both FIN 5437 and FIN 5439. REE 6045 is *highly* recommended as a prerequisite.

### Required Materials:

1. Selected chapters from *Real Estate Principles: A Value Approach 5<sup>th</sup> Edition*, by Ling and Archer (McGraw-Hill/Irwin, 2018). The 5<sup>th</sup> edition will not be published until mid-March. However, pdfs of the chapters we are going to use will be posted to the class Canvas site. Other required readings are available on the class Canvas site.
2. *Class Notes* can be downloaded directly from the class *Canvas* site. These Power Point note shells should be printed out and brought to class or brought to class on your laptop.
3. A financial calculator with standard time-value-of-money functions (present value, future value, annuities, etc.) that can also perform cash flow analysis (NPV and IRR). If purchasing, I would recommend the Hewlett Packard 10BII. A useful two page overview of the HP-10BII (put together by Professor Archer) is available on the class Canvas site (under Files/Other Course Resources). You will not be able to use a phone with a calculator when taking exams.

*Note on class announcements:* I will frequently communicate with the class by posting announcements to the class *Canvas* site. It is your responsibility to make sure you are receiving email notifications of Canvas announcements.

### Grading and Expectations:

Homework	16%
Quizzes	12%
Participation/cooperation	10%
First exam (Thursday, March 23)	18%
Second Exam (Thursday, April 20)	<u>44%</u>
Total	100%

*Grading:* You are guaranteed the following straight scale: If your weighted average percentage is 94 percent or greater you will receive an “A”; 90-93 percent will guarantee you an “A-”; 87-89 percent a “B+”; 84-86 percent a “B”, etc. However, final grades may be curved upward.

All homework assignments must be turned in on the assigned due date at the beginning of class. Late assignments will not be accepted.

Quizzes may, or may not, be announced prior to their administration. Some will be done in groups of three; some will be taken individually. Your lowest quiz score will be dropped in the calculation of your final quiz percentage.

Make-up exams will be offered only under extenuating circumstances (generally medical excuses) and only if the student receives permission from Professor Ling in advance of the conflict.

The Alfred A. Ring Distinguished Speaker Series sponsors presentations by prominent real estate professionals. For each Ring Speaker presentation that you attend, I will add 1/2 of a percentage point to your final weighted average percentage. For example, if your final weighted average percentage is 85% and you attend two Ring Speaker presentations, I will increase your final weighted percentage to 86.0% [85% + (2 x 0.50%)].

Answering and asking questions will contribute positively to your class participation grade. However, my evaluation will also be based on your attendance and the extent to which you help create a positive learning environment (i.e., arrive for class on time, show respect for your professor and your fellow students, do not engage in conversations with those seated around you, keep your cell phone off and out of sight, comply with rules regarding the use of laptops).

There is a large and complex body of material to master in this class. It is essential that you come prepared to each class: this means you need to have completed assigned readings and homework before class. The lectures are intended to highlight basic themes and to help you understand key concepts and techniques--they cannot cover everything assigned. You are, however, responsible for learning all of the assigned material. Unless you are specifically instructed to the contrary, assume all assigned material is "fair game" for quizzes and exams.

### **Administrative Issues**

*I will arrive early and be prepared to start on time. Please do the same.*

#### *Computer usage during class:*

If you wish to bring the power point slides to class on your laptop for editing/note taking, *you must sit in the first or second row of the classroom at all times.*

#### *Cell phones:*

Please turn off your cell phone prior to class and keep it in your pocket, backpack, or briefcase.

#### *Accommodations for students with disabilities:*

"Students requesting classroom accommodation must first register with the Dean of Students Office. The Dean of Students Office will provide documentation to the student who must then provide this documentation to the Instructor when requesting accommodation."

#### *Regrade Policy:*

To insure that all students are treated equally and fairly in the grading process, students must follow the regrade policy below if they want a quiz, homework, or exam grade to be reconsidered. Please note that for me to reconsider your grade, you must provide me with the following material no later than two weeks after the assignment or quiz was returned. If you believe that you received incorrect credit for a particular portion of your graded material, please do the following:

1. Turn in the graded course material in question.
2. Provide me with a clear, type-written case that clearly explains why you believe you received insufficient credit. Please note that to evaluate your request I will likely regrade the entire quiz, homework, or exam in order to determine if you were treated fairly relative to your peers. This could result in your grade being *lowered*
3. Provide me with an email address where I can reach you once I have evaluated your case.

#### *Department Chair:*

The chair of the Finance, Insurance and Real Estate Department is Professor Andy Naranjo, [andy.naranjo@warrington.ufl.edu](mailto:andy.naranjo@warrington.ufl.edu). The department offices are located in 321 Stuzin, 392-0153.

## **Related University Policies:**

### *Document retention policy:*

Student course material will be retained for three weeks beyond the end of the term.

### *The University's honesty policy regarding cheating and use of copyrighted materials:*

All students are required to abide by the Academic Honesty Guidelines set forth in the University of Florida Rules - 6C1-4 Student Affairs, 6C1-4.017 Student Affairs: Academic Honesty Guidelines. The following website contains details covering the academic honesty guidelines: <http://www.aa.ufl.edu/Handbook/students.html>.

### *The University's student code of conduct:*

Students enjoy the rights and privileges that accrue to membership in the UF community and are subject to the responsibilities that accompany that membership. As stated in the Standard of Ethical Conduct, students are expected to treat others with respect and concern (6C1-4.016 Student Conduct Code; Violations, Penalties and Procedures for Adjudication). The following website contains details covering the student code of conduct: <http://www.dso.ufl.edu/judicial/conductcode.php>.

### *UF Religious Observances Policy*

Students are allowed the opportunity to observe the holy days of his or her faith. A student needs to inform the faculty member of the religious observances that will conflict with class attendance tests or examinations prior to the class or occurrence of that test or activity. The faculty member is then obligated to accommodate that particular student's religious observances. Because our students represent a myriad of cultures and many faiths, the University of Florida is not able to assure that scheduled academic activities do not conflict with the holy days of all religious groups. We, therefore, rely on students to make their need for an excused absence known in advance of the scheduled activities. The UF Religious Holidays Policy is available at: <https://catalog.ufl.edu/ugrad/current/regulations/info/attendance.aspx>

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**Tuesday, February 28**

*Class Orientation and Introduction*  
*Income Taxation and Cash Flows, Values, and Returns*  
Class Notes, Lecture #1  
Chapter 20, *Real Estate Principles 5<sup>th</sup> ed.*, Ling and Archer.

**Thursday, March 2**

*Income Taxation and Cash Flows, Values, and Returns, continued*  
Class Notes, Lecture #1  
Johnston, Eric, "Improving Economics: Cost-Segregation Studies Can Help Owners Increase Their Tax Savings," *Commercial Investment Real Estate*, May-June, 2005, pgs. 18-19 (Canvas site).  
1031 Corporation, "The Tax Rules for Sale of a Personal Residence (In A Nutshell)." (Canvas site)  
HUD, "LIHTC Basics." (Canvas site)  
*Tax-Deferred Exchanges*  
Class Notes, Lecture #2  
1031 Corporation, "Everything You Ever Wanted to Know About 1031 Exchanges and the Tax-Saving Opportunities." (Canvas site)

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**Thursday, March 2**

Alfred A. Ring Distinguished Speaker Series (<http://warrington.ufl.edu/centers/cres/ring.asp>):  
Mr. Andrew Wheeler, Senior Vice President. Reynolds, Smith & Hill (<http://www.rsandh.com/>)  
Bryan Hall, Room 130, 4:05-6:00 p.m.

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**Tuesday, March 14**

*Tax-Deferred Exchanges, continued*  
Class Notes, Lecture #2  
Ling, David C. and Milena Petrova, "The Economic Impact of Repealing or Limiting Section 1031 Like-Kind Exchanges in Real Estate." Read pages 1-17. (Canvas site)  
Bubny, Paul, "Study: 1031 Repeal Would Do Little Good, Much Harm," *GlobeSt.com*, July 16, 2015. (Canvas site)  
Mattson-Teig, Beth, "1031 Buyers Compete for Replacement Properties," *National Real Estate Investor On-Line*, June 29, 2016. (Canvas site)  
Homework #1 due (Before-tax analysis)

**Thursday, March 16**

*Leasing Terms and Analysis*  
Class Notes, Lecture #3  
Chapter 22, *Real Estate Principles 5<sup>th</sup> ed.*, Ling and Archer.  
CCIM Institute, "Typical Items in Commercial Leases" (Canvas site).  
Pizza Restaurant Lease (Canvas site)

## **Tuesday, March 21**

*Leasing Terms and Analysis, continued*

*Class Notes, Lecture #3*

Mitchell, Donna, "Meeting the Standard," *National Real Estate Investor*, July 2016, pg. 19.  
(Canvas site)

Popovec, Jennifer Duell, "Private Equity Focuses on Leases," *National Real Estate Investor On-Line*, April 30, 2015. (Canvas site)

Philips, David, "Hong Kong Still the Priciest Retail Market" *GlobeSt.com*, February 24, 2014  
(class website).

Popovec, Jennifer Duell, "Will Monetizing its Real Estate Benefit Macy's?" Mattson-Teig, Beth,  
*National Real Estate Investor On-Line*, June 11, 2015. (Canvas site)

Homework #2 due (Equivalent level rent problem)

## **Thursday, March 23**

*First Exam*

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## **Thursday, March 23**

*Alfred A. Ring Distinguished Speaker Series* (<http://warrington.ufl.edu/centers/cres/ring.asp>):

Ms. Sandy Hostetter, Central Florida Regional President, Valley National Bank  
(<https://www.valleyflorida.com/>)

Bryan Hall, Room 130, 4:05-6:00 p.m.

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## **Tuesday, March 28**

*Commercial Mortgage Types and Decisions*

*Class Notes, Lecture #4*

Chapter 16, *Real Estate Principles 5<sup>th</sup> ed.*, Ling and Archer.

## **Thursday, March 30**

*Commercial Mortgage Types and Decisions, continued*

*Class Notes, Lecture #4*

Chapter 16, *Real Estate Principles 4<sup>th</sup> ed.*, Ling and Archer.

Angel Law Offices, "Due Diligence for Commercial Real Estate: a Checklist for Seller's Documents"  
(Canvas site).

West, Richard, "Speed of Due Diligence and Risk for Investors," *National Real Estate Investor*, April  
6, 2015. (Canvas site).

Mattson-Teig, Beth, "Construction Loans Fall Victim to Concentration Risk Concerns," *National Real  
Estate Investor On-Line*, September 14, 2016. (Canvas site)

*Sources of Commercial Debt and Equity Capital*

*Class Notes, Lecture #5*

Chapter 17, *Real Estate Principles 5<sup>th</sup> ed.*, Ling and Archer, pgs. 453-470.

Homework #3 due (Mortgage amortization and effective borrowing cost)

## Tuesday, April 4

### *Sources of Commercial Debt and Equity Capital, continued*

#### *Class Notes, Lecture #5*

- Realty Mogul, "LLCs as Real Estate Investment Vehicles," February 6, 2014 (Canvas site).
- Realty Mogul, "Financial Structures of Private Equity Real Estate Investments," February 6, 2014 (Canvas site).
- Quick Liquidity, "Commercial Real Estate Partnership: A Real Life Game of Thrones," August 2, 2016. (Canvas site).
- Quick Liquidity, "McDonald's Secret Sauce: Commercial Real estate," September 26, 2016. (Canvas site).
- Bubny, Paul, "Smaller Banks are Now Biggest Lending Class," *GlobeSt.com*, September 16, 2016. (Canvas site)
- Rivas, Teresa, "Here's How Banks Commercial Real Estate Exposure Stacks Up," *Barrons.com*, August 16, 2016. (Canvas site)
- Mulholland, Sarah and Heather Perlberg, "Shadow Lenders Step in for Banks Facing U.S. Property Warnings," *National Real Estate Investor On-Line*, September 19, 2016. (Canvas site)
- Mattson-Teig, Beth, "Are Foreign Investors Moving to the Sidelines?," *National Real Estate Investor On-Line*, August 8, 2016 (Canvas site)
- Bechtel, Gary, "U.S. Commercial Real Estate: A Favorite among Foreign Investors;" *National Real Estate Investor On-Line*, September 28, 2016 (Canvas site)
- Bubny, Paul, "Life Cos. Swap Liquidly for Yield," *GlobeSt.com*, July 8, 2016. (Canvas site)
- Mattson-Teig, Beth, "Pension Funds Weigh Risk vs Reward in Chasing More Real Estate Assets," *National Real Estate Investor On-Line*, January 25, 2015. (Canvas site)
- Morphy, Erika, "Proposed Government Funding Measure Includes EB-5 (For Now)," *GlobeSt.com*, September 26, 2016. (Canvas site)
- Idzelis, Christine and Craig Torres, "Shadow Lenders are Pushing Into Risky Real Estate Deals," *Bloomberg News*, July 17, 2015. (Canvas site)

## Thursday, April 6

### *Private Equity and the Economics of Joint Ownership*

#### *Class Notes, Lecture #6*

- Chapter 18 from *Real Estate Finance and Investment* (12<sup>th</sup> edition) by Brueggeman and Fisher Investment Law Group, "Structuring Private Real Estate Funds--Key Terms and Features," October 1, 2013 (Canvas site).
- Wells Fargo Advisors, "A Guide to Investing in Private Equity & Private RE Funds" (Canvas site).
- Vass, Laurie Thomas, "Understanding the Benefits of a Reg D Rule 506c Private Offering for Real Estate Development Firms," The Private Capital Market, Inc. (Canvas site)
- Perlberg, Heather, "It Took Only 12 Hours to Crowdfund \$1 Million for House Flipping," *National Real Estate Investor On-Line*, September 21, 2016. (Canvas site)
- Piperato, Susan, "Hyperlocal Crowdfunding Lowers Risk for Investors," *National Real Estate Investor On-Line*, July 16, 2015. (Canvas site)
- Mattson-Teig, Beth, "Are Real Estate Crowdfunding Firms Delivering the Goods?" *National Real Estate Investor On-Line*, August 12, 2015. (Canvas site).
- Katz, Rayna, "RE Crowdfunding Platform Hits \$1B Mark," *GlobeSt.com*, September 19, 2016. (Canvas site)
- Morphy, Erika, "Carried Interest Unexpectedly Re-emerges for CRE," *GlobeSt.com*, July 27, 2015. (Canvas site)
- Mattson-Teig, Beth, "Top 10 Real Estate Private Equity Fund Managers" *National Real Estate Investor On-Line*, June 22, 2016. (Canvas site).

## Tuesday, April 11

*Private Equity and the Economics of Joint Ownership, continued*

Class Notes, Lecture #6

Homework #4 due (Capital account balances)

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## Tuesday, April 11

Alfred A. Ring Distinguished Speaker Series (<http://warrington.ufl.edu/centers/cres/ring.asp>):

Mr. Kelley Bergstrom, Bergstrom Investments

Bryan Hall, Room 130, 4:05-6:00 p.m.

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## Thursday, April 13

*Investing in Real Estate Investment Trusts*

Class Notes, Lecture #7

Chapter 17, *Real Estate Principles 4<sup>th</sup> ed.*, Ling and Archer, pgs. 471-476.

[www.reit.com](http://www.reit.com). Once on the NAREIT website, click on “What is a REIT?” under “REIT Basics.”

Then click on “FAQs” (Frequently Asked Questions). You are responsible for all of the “FAQ” material (including all the “learn more” material that is available in each section).

Bodamer, David, “The Next Phase: With CRE Seemingly at its Cyclical Peak, What are REITs to Do?” *National Real Estate Investor On-Line*, June 2016. (Canvas site).

Sullivan, Paul, “Real Estate Strikes Out on Its Own in the Stock Indexes,” *nytimes.com*, August 26, 2016. (Canvas site)

## Tuesday, April 18

*Investing in Real Estate Investment Trusts, continued*

Brown, Lisa, “Real Estate’s Debut as Standalone Sector Has Its Positive Impacts,” *GlobeSt.com*, September, 26, 2016. (Canvas site)

Bubny, Paul, “New Rule Means Closer Look at Non-Traded REITs,” *GlobeSt.com*, February 19, 2015. (Canvas site)

Kelly, Bruce, “Nontraded REITs Sales Fall Off a Cliff as Industry Struggles to Adapt,” [www.investentnews.com](http://www.investentnews.com), July 24, 2016.

Bubny, Paul, “Blackstone Makes a Foray into Non-Traded REITS,” *GlobeSt.com*, August 11, 2016. (Canvas site)

Ling, David C., Andy Naranjo, and Benjamin Scheick, “MSA Geographic Allocations, Property Selection, and Performance Attribution in Public and Private Real Estate Market Returns,” available at <https://www.reit.com/data-research/research/sponsored-research>

Ling, David C. and Andy Naranjo, “Returns and Information Transmission Dynamics in Public and Private Real Estate Markets,” forthcoming, *Real Estate Economics* (available at <https://www.reit.com/sites/default/files/media/PDFs/LingNaranjo2015.PDF> (recommended but not required).

Homework #5 due (Risk and return in a portfolio context)

## Thursday, April 20

*Second Exam*