

REE 6395 Investment Property Analysis

Dr. David Ling

Course Description and Objective

This course is an introduction to the major concepts, principles, analytical methods and tools useful for making commercial real estate valuation and investment decisions. As the first of a two-course sequence, this course focuses primarily on the fundamentals of the property markets and investment decisions relating to individual properties ("Main Street" as opposed to "Wall Street"). The follow-on course in the spring semester (REE 6397: Real Estate Securities and Portfolios) focuses on the valuation of commercial real estate securities and portfolios. Nevertheless, we will touch on AWall Street@ subjects to some extent in this course because local property markets are connected to all the other parts of the capital market (i.e. "Main Street" and "Wall Street" are intimately connected).

The course will emphasize single-property valuation and decision making from the perspective of "institutional" investors and market participants (e.g., banks, life insurance companies, real estate consulting firms, large developers, pension funds, REITs, and larger partnerships). At the institutional level, the link between property markets and the broader capital markets is most intense and important.

Because we are focusing at the institutional level, this course will differ to some extent from some traditional real estate finance and investment courses that are 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 corporate finance perspective. In essence, this course treats property as one particular class of capital assets.

The course is applied in nature in that the best practices of commercial real estate professionals are taught and discussed. REE 6395 differs from REE 6206 and REE 6208 (both taught by Professor Archer) in that the focus in this class is on equity (cash) investments in commercial real estate. The focus of Professor Archer's classes is the primary and secondary mortgage market.

Students are expected to be familiar with the application of basic discounted cash flow analysis (capital budgeting) to commercial real estate investments. 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 problems available in the readings and lecture notes. To supplement the readings listed in the course outline, I will occasionally assign an additional reading. Copies will either be distributed in class or be available for downloading on the class website.

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.
4. In keeping with the applied nature of the course, many real world issues and Acurrent events@ will be discussed in class. In addition, you will be encouraged to attend the Alfred A. Ring Distinguished Speakers Series.

Prerequisites:

REE 6045 (Introduction to Real Estate) is strongly recommended but not required.

Required Materials:

1. Seven chapters from *Real Estate Principles: A Value Approach*, by Ling and Archer (McGraw-Hill/Irwin, 2004).
2. *Class Notes* and other class materials will be downloadable directly from the Warrington College of Business network. *Class Notes* for a given week will be posted by 8:30 a.m. on Monday (if not before). The *Class Notes* will contain the shells of many, **but not all**, of the power point slides I will use in class. If you are not a student in the Warrington College of Business, please see me to obtain a username and password for the College network.
3. A financial calculator that has the standard time value of money functions (present value, future value, annuities, etc.) and that performs cash flow analysis (NPV and IRR). If purchasing, I would recommend the Hewlett Packard 10BII.
4. An e-mail address and access to a Web browser.