

REE 6395
Investment Property Analysis
Fall 2008, Module 2

Instructor:	Professor David Ling
Office:	Stuzin Hall, 301C
Office Hours:	By appointment or Monday & Wednesday, 12:50-1:40p.m. (period 6)
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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 .

Course Description and Objective

The focus of this course is on the major concepts, principles, analytical methods and tools used in 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 (REE 6397: Real Estate Securities and Portfolios) focuses on the valuation of portfolios and publicly traded commercial real estate securities. Nevertheless, we will touch on Wall Street subjects to some extent in this course because local property markets interact with 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 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 corporate finance perspective. In essence, this course treats investment property as one particular class of capital assets. However, the course is applied in nature in that the best practices of commercial real estate 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 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 from 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. Concepts learned by completing the homework assignments are “fair game” for quizzes and the exam.
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 Speakers Series (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. Seven chapters from *Real Estate Principles: A Value Approach 2nd Edition*, by Ling and Archer (McGraw-Hill/Irwin, 2008). Other readings will be available on the class website or distributed in class.
2. *Class Notes* and other class materials will be downloadable directly from the class website. These note shells should be printed out and brought to class. The *Class Notes* will contain the shells of many, **but not all**, of the power point slides I will use in class.
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 tour of the HB 10BII, as well as downloadable instructions and training modules are available at: <http://www.hp.com/calculators/financial/10bII/educators.html>.
4. An email address and access to a Web browser.

Note on e-mail accounts: I will frequently correspond with the class by email. All email will be sent to the student’s Gatorlink email address; it is your responsibility to check your Gatorlink email on a regular basis

Grading and Expectations:

Homework	24%
Quizzes	16%
Participation/cooperation	10%
Final Exam (Monday, December 10 th , 1:55-4:00pm)	50%

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.

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 material is "fair game" for quizzes and the exam.

The chairman of the Finance, Insurance and Real Estate Department is Professor Mahendrarajah (Nimal) Nimalendran, mahen.nimalendran@cba.ufl.edu, 352-392-9526. The Department offices are located in 321 Stuzin, 392-0153.

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 should then pass this documentation on to me when requesting accommodation.

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

Important Administrative Issues

Cell phones:

Please turn off your cell phone prior to class. As you know, ringing cell phones are a distraction to the rest of the class.

Computer usage during class:

You will not need your computers during my class, so please turn them off. Web surfing, answering emails, computer card games, etc. are a distraction both for you and your peers. If you use your computer to take notes, please see me.

Make-up examinations and late assignments:

Please note that late assignments will not be accepted. A make-up exam will be offered only under extremely extenuating circumstances and only if the student notifies me well in advance of the conflict.

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.

Miscellaneous University Issues:

Document retention policy:

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

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."

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>.

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Monday, October 27

Class Orientation and Introduction
Review of Commercial Property Valuation for Single Properties
Class Notes, Lecture #1
Chapters 9, 19, and 20, *Real Estate Principles 2nd ed.*, Ling and Archer.

Wednesday, October 29

Multiperiod Capitalization Rates versus Discount Rates: Everything You Always Wanted to Know About Cap Rates (and Much, Much, More)
Class Notes, Lecture #2
Commercial Mortgage Types and Decisions
Class Notes, Lecture #3
Chapter 17, *Real Estate Principles 2nd ed.*, Ling and Archer.
Homework #1 due (Before-tax investment opportunity)

Thursday, October 30

Alfred A. Ring Distinguished Speaker Series:
James Heistand, Founder and Partner, Eola Capital, LLC
"Accessing Equity in the Capital Markets"

Monday, November 3

Commercial Mortgage Types and Decisions, continued
Class Notes, Lecture #3
Chapter 17, *Real Estate Principles 2nd ed.*, Ling and Archer.
Sources of Commercial Debt and Equity Capital
Class Notes, Lecture #4
Chapter 18, *Real Estate Principles 2nd ed.*, Ling and Archer.

Wednesday, November 5

Income Taxation and Cash Flows, Values, and Returns
Class Notes, Lecture #5
Chapter 21, *Real Estate Principles 2nd ed.*, Ling and Archer.
1031 Corporation (www.1031cpas.com), "The Tax Rules for a Personal Residence," "The Capital Gains Rules," and "MACRS Depreciation Useful Lives" (all three on class website).
HUD, "LIHTC Basics" (distributed in class).
Johnston, Eric, "Improving Economics: Cost-Segregation Studies Can Help Owners Increase Their Tax Savings," *Commercial Investment Real Estate*, May-June, 2005, pgs. 18-19 (class website).

Thursday, November 6

Alfred A. Ring Distinguished Speaker Series:

Dan Woodward, Vice President, Highwoods Properties, Inc

"Increasing Challenges for Office Development in Florida—Have We Killed the Golden Goose?"

Monday, November 10

Income Taxation and Cash Flows, Values, and Returns, continued

Class Notes, Lecture #5

Chapter 21, *Real Estate Principles 2nd ed.*, Ling and Archer.

Homework #2 due (After-tax investment opportunity)

Wednesday, November 12

The Economics of Joint Ownership

Class Notes, Lecture #6

Chapter 18 from *Real Estate Finance and Investment* (12th edition) by William Brueggeman and Jeffrey Fisher (to be distributed in class).

Monday, November 17

Tax-Deferred Exchanges

Class Notes, Lecture #7

1031 Corporation, "Everything You Ever Wanted to Know About 1031 Exchanges and the Tax-Saving Opportunities" (distributed in class).

David C. Ling and Milena Petrova, "Avoiding Taxes at Any Cost: The Economics of Tax-Deferred Real Estate Exchanges," *Journal of Real Estate Finance and Economics*, Vol. 36, No. 4 (2007) (distributed in class).

Homework #3 due (Limited partnership case analysis)

Wednesday, November 19

The Property Acquisition Process

Guest lecture by Blaine Strickland, Partner, Mainsail Development Group, LLC, Orlando, "Acquiring Commercial Real Estate: Tales from the Street."

McMahan, John, "Note on Property Acquisition" (distributed in class).

Homework #4 due (Mr. Strickland's due diligence assignment)

Thursday, November 20

Alfred A. Ring Distinguished Speaker Series:

Craig Ustler, President, Ustler Development, Inc.

"The New Reality of Urban Development"

Monday, November 24

Tax-Deferred Exchanges, continued

Class Notes, Lecture #7

Lease vs. Own and Sale Leasebacks

Class Notes, Lecture #8

Homework #5 due (Mr. Schantz's Exchange Problem)

Wednesday, November 26

No Class, Thanksgiving Break

Monday, December 1

Leasing Terms and Analysis

Class Notes, Lecture #9

Chapter 23, *Real Estate Principles 2nd ed.*, Ling and Archer.

CCIM Institute, "Typical Items in Commercial Leases" (distributed in class).

ACG Professionals, "Argus Pre-Class Primer" (class website).

Wednesday, December 3

Leasing Terms and Analysis, continued

Class Notes, Lecture #9

Homework #6 due (Lease vs. own analysis)

Thursday, December 4

Alfred A. Ring Distinguished Speaker Series:

Daryl Carter, President, Ustler Development, Inc.

"The Maury Carter Story... Wisdom of My Father"

Monday, December 8

Guest lecture by Keith Schantz, Regional Real Estate Director, Florida, The TJX Companies,

"Leases and Lease Negotiation"

Wednesday, December 10

The Real Estate System: Linking Space, Property, and Capital Markets

Class Notes, Lecture #10

Ling, David C. and Wayne R. Archer, "The Three Dimensions of Real Estate Markets: Linking Space, Capital, and Property Markets," *Real Estate Finance*, Fall 1997, pgs. 7-14 (class website).

Ling, David C., "A Random Walk Down Main Street: Can Experts Predict Returns on Commercial Real Estate,?" *Journal of Real Estate Research*, Vol. 27, No. 2, 2005 (class website).

Monday, December 15

Final Exam

9:35-11:30am (periods 3-4)

Section 0659 (which regularly meets periods 7-8) will be tested in Stuzin 101.

Section 0668 (which regularly meets periods 9-10) will be tested in Stuzin 102.