

## 1231.3371.01 – Real Estate Development

(Prerequisite: Principles of Finance)

Semester A – 2014/2015

**Lecturer:** Mr. Joshua Katzen  
**Course Time:** Mondays 17:15-20:00 (**Second half**)  
**Email:** [joshkatzen@gmail.com](mailto:joshkatzen@gmail.com)

### OVERVIEW

This course focuses on how developers create value from real estate assets. The course will examine the real estate development process: how a developer thinks, how projects are created and completed, and how problems are addressed. We will discuss market analysis, site selection, acquisition, planning, construction, leasing and permitting. It is assumed that students, having some background in finance, are familiar with the essential concepts of determining cash flow from operations, free and clear return and loan amortization. Throughout the course, we will use these tools to focus on “the numbers”, keeping in mind the underlying economic realities of each project. Using cases and real life examples, working individually and in groups, and participating actively in classroom discussions, students will apply these skills to retail, residential, office and mixed-use developments.

On a practical level, the way this course works is that we’ll discuss a case every week, starting with the second week (the first class will be an overview lecture). Students will need to prepare the weekly case in order to understand and participate in the class discussion. Since the most important question a real estate developer has to answer is, “Is this a good deal?” a significant portion of the class discussion will focus on the financial analysis of the case. Students will be provided with spreadsheet formats in the *Do the Numbers* format to use with the cases in advance of most classes. The expectation is that students will not only know the facts of each case but will also be very familiar with the applicable financial, and will turn in a *Do the Numbers* analysis for each class by 17:00 on the Sunday prior to each class. The cases are not easy, and the financial analyses take some creativity. Students should expect to spend 2 to 4 hours preparing each case.

## COURSE REQUIREMENTS

### Prerequisites

Students are required to have completed an introductory finance course.

### Required Assignments

- (1) **Prior to the first class**, you will need to complete two simple financial analysis individual assignments:
  - i. "Do the Numbers" assignment, which I will email to you. The purpose of the assignment is to make sure you understand the basic financial terms and concepts that we will be using throughout the course. You should be able to do this assignment in about 20 minutes. If the assignment takes you longer than  $\pm 20$  minutes to complete, that will mean that you need to work on your understanding of the basic financial concepts – complete the "Real Estate Financial Analysis Workbook" (see course readings).
  - ii. "Real Estate Financing Problem Set" a 10-question problem set assignment which I will email to you. You should be able to do this assignment in about 1.5 hours.

**Please email your answers to both assignments by 17:00 on Sunday, 8 December 2013 to the course Teaching Assistant, Yaron Shachar (shachar84@gmail.com).**

- (2) **During the term**, you will need to read and work on a total of five cases: four Harvard Business School cases and one that I wrote. The HBS cases will be available for purchase at Safrut Zola, and I will email you my case.
- (3) **Final Project**, the Final Project will consist of creation of an original development plan. Given an actual location, students, working in groups of 4, will plan an appropriate development or redevelopment. The Final Project will entail examining the site, understanding the local market, analyzing local zoning rules, identifying other potential regulatory issues, laying out the development, determining financial assumptions and projections, suggesting ownership and financial structures, and, most important, convincing potential investors that they should invest.

Written deliverables for the Final Project will include investment overview, including a clear and persuasive statement of how much equity is needed and why an intelligent investor would want to make this investment; panorama, project and property overview (3-5 pages), analysis of development risks and strategy (1-3 pages), marketing brochure, budget, financial analysis, zoning analysis and site plan.

**The Final Project will be due via email by 17:00 on Sunday, February 3, 2014.**

I strongly recommend that you purchase a financial calculator (the **HP 12c** is the industry standard) and learn how to manipulate cash flow, interest rates, amortization periods, payment schedules and present values. Please bring your calculator to each class. Although you can also use Excel spreadsheets on your computer to do the analysis, in the real world, you either don't always have your computer with you or it's not appropriate to bring it out in the middle of a negotiation. A small powerful pocket calculator works best. There is an iPhone app for the HP 12c which works fine.

### **Supplemental course Readings (in addition to cases)**

“Real Estate Financial Analysis Workbook”, a 25 page self-check workbook, will be emailed to all students prior to the first class. If you have any trouble with the first two pre-class assignments, I suggest that you complete and self-check, on a voluntary basis, the exercises on pp. 9, 14, 20 of the *Workbook*. Please note that there are some inconsistencies between some terms used in the *Do the Numbers* format and in the *Workbook*. This is not important – the concepts are the same.

If you are interested in good background reading about real estate development, I recommend the textbook *Professional Real Estate Development, The ULI Guide to the Business*, by Richard Peiser, ULI – The Urban Land Institute. Several copies are available at the library.

In addition, I will be sending via email to the class additional materials, such as newspaper articles, from time to time. Accordingly, each student will be responsible for ensuring that I have the best current email address and for checking emails prior to each class. If you read these supplemental materials, you’ll learn more.

### **Attendance and Participation**

Real estate development is a highly interactive industry and, accordingly, this class will follow that model. **All cases should be done in groups of four.**

It is expected that you’ll come to every class, since there are only 6. The nature of this course is that if you fail to attend a class in person, it’s very difficult to figure out what happened during the class. The success of the class itself will depend to a great degree upon your regular attendance and preparation, **thus there is a mandatory participation in class. If you can't make it to one of the classes, please let me know in advance.** Every student will be expected to come prepared to discuss the week’s case in detail, including, especially, the economics. Some classes will include hand-outs of marketing brochures or short case problems, and you will be expected to analyze them “on the spot.” Constructive classroom participation will factor into your grade.

### **Assignments, Final Project and Grading**

Students will be graded on their class participation, written assignments and a team final project.

The written assignments will be due by 17:00 on the Sunday before the applicable class, starting with the second week.

Grades will be determined on a combination of class participation, written homework assignments and Final Project.

## COURSE MATERIALS

### HBS Cases (tentative)

<i>Bayside</i>	9-390-113
<i>Cortlandt Town Center</i>	9-800-232
<i>Lance Johnstone: Developing 3000 North Broad</i>	9-808-126
<i>Time Warner Center</i>	9-208-081

### JW Katzen Case ()

*Danbury, CT*

### Materials

*Do the Numbers worksheet*

*Real Estate Financial Analysis Workbook*

*Real Estate Finance problem set*

Various supplemental materials for each class and for Final Project

## COURSE OUTLINE

<u>Date</u>	<u>Topic</u>	<u>Preparation and deliverables</u>
First meeting 9 December	Overview of Real Estate Development Financial Analysis boot camp	<i>Do the Numbers</i> exercise
Second meeting 16 December	Retail Development	<i>Cortlandt Town Center</i>
Third meeting 23 December	Residential Development	<i>Lance Johnstone</i>
Fourth meeting 30 December	Office Development	<i>Bayside</i>
Fifth meeting 6 January	Mixed-Use Development	<i>Time Warner Center</i>
Sixth meeting 13 January	Repositioning a distressed asset	<i>Danbury, CT</i>
<b>*****</b>	<b>3Februry 2014</b>	<b>Final Project Due *****</b>