

REAL ESTATE
BUS 235f
Fall 2012 Section 2

Tuesday & Thursday, 12:30 pm – 1:50 pm
Lemberg Center, Room 54

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OVERVIEW

This course serves as an introduction to the acquisition, development, financing, leasing and management of income-producing real property. Using case discussion, class lectures and guest lectures, we start with the lease as the foundation for property cash flow; we learn about design and market research influences on successful projects; understand how developers and investors identify projects, determine value, manage approvals with regulatory bodies and community groups, and obtain financing in the debt and equity markets; discuss how projects get into trouble and strategies that owners and lenders use to work-out distressed properties.

LEARNING GOALS & OUTCOMES

Understand the characteristics of leases for different property types: landlord and tenant rights and responsibilities

Recognize and evaluate the determinants of value: individual property design features, market conditions of supply and demand, capital market influences, public policy effects

Be familiar with the legal and regulatory environment: property rights and limitations, land use regulations and the role of government in project approval and financing

Get an introduction to real estate development: managing the approval process; designing a building to maximize leasing; understanding how land is valued

Understand the roles and responsibilities of the “players” in the real estate marketplace

Estimate the value of income-producing properties via a direct capitalization approach and a DCF

Understand the sources of capital and the basics workings of the real estate capital markets

Explore societal challenges and opportunities that result from the inherent tension of individual versus communal rights and responsibilities: Green/LEED, conservation, historical preservation, affordable housing, Smart Growth and transit-oriented development and community engagement

PREREQUISITE: FIN 212a is recommended; however, you may take FIN 212a **concurrent** with this course.

COURSE REQUIREMENTS

Required Reading

There are 6 HBS cases and 4 notes that you will need to buy. There are 2 cases I wrote that will also be discussed in this course, and they are posted on LATTE. In addition, you will find on LATTE a copy of the “*Real Estate Financial Analysis Workbook*” which you must read for the second class. Read through p.20 in the workbook and **do the first four exercises** found in those pages. There are also several articles I will post on LATTE that correspond to the subject of specific class topics. Also, I have arranged with Argus Software, Inc., for a license which will enable you to use a LAN-version of Argus 14, the industry-standard real estate software package. More about Argus on p.4.

I have created a course area on the Harvard Business Publishing online website where you can order the required materials: <http://cb.hbsp.harvard.edu/cb/access/14304045>. Look for Real Estate Fundamentals Fall 2012 section 2.

If you have not registered with Harvard Business Online, you will be required to do so. Electronic course materials are in PDF (Portable Document Format) and should be viewed with Adobe Reader, available free at www.adobe.com. Students can access PDF files of course materials via a link on Harvard Business Online for six months from the date of purchase. You will have immediate access to the materials upon placing your order, for subsequent access, you must login to <http://harvardbusinessonline.org> I hope you find this a convenient way to access your course materials.

For technical assistance, please view the [Quick Tips](#) section or contact HBS Publishing at [1-800-810-8858](tel:1-800-810-8858) or [617-783-7700](tel:617-783-7700), from 8am-6pm. They can also be reached at techhelp@hbsp.harvard.edu

Attendance and Participation

Class attendance is required. For eight (8) classes, there will be a case assigned and every student is expected to come prepared to discuss it in detail – regardless if the case is graded, or not. Students are also expected to be actively engaged in discussing topics during class lectures and guest lectures, including asking pertinent questions. Class participation is critical; to ensure an effective process, students are expected to use name cards at every session.

Academic Honesty

You are expected to be honest in all of your academic work. Instances of alleged dishonesty will be forwarded to the Office of Campus Life for possible referral to the Student Judicial System. Potential sanctions include failure in the course and suspension from the University. For the University policy on academic honesty, please see section 5 of *the Rights and Responsibilities Handbook*.

Disabilities

If you are a student with a documented disability on record at Brandeis and wish to have a reasonable accommodation made for you in this class, please see me immediately. Please keep in mind that reasonable accommodations are not provided retroactively.

Grading

Students will be graded on two individual case study assignments and two team case study assignments, the mid-term exam, and class participation. The mid-term exam will cover the content of the course through the first half of the module. Students should be prepared to discuss **all** of the assigned cases, even if a written assignment is not required for certain cases. *503 Cricket Road* and *The Schneider Building* are individual graded assignments (**students may not discuss their work with each other**); *Angus Cartwright* and *IBET Pension Fund* must be done in teams of students. (I expect “language diversity” on your teams; this diversity helps ensure that English is the language spoken at team meetings.) We will determine the teams for the case studies at the first or second class. It is advisable to start working on team cases well in advance of the due date. You are not obligated to keep the same team for each assignment; having said that, if your team “fires” a member, please give at least **4** days’ notice prior to the date of the next team submission so the student has sufficient time to find a new team. Grades on each team assignment are assigned to all members of the team although *I reserve the right to alter individual grades in certain circumstances*, e.g., when it is clear to me that an individual did not contribute to the assignment in a consistent and meaningful way.

WRITTEN ASSIGNMENTS	55%		<u>DUE DATE</u>
<i>503 Cricket Road</i>	(10%)	INDIVIDUAL	Sept 6
<i>The Schneider Building</i>	(15%)	INDIVIDUAL	Oct 4
<i>Angus Cartwright</i>	(15%)	TEAM	Oct 11
<i>IBET Pension Fund</i>	(15%)	TEAM	Oct 30
MID-TERM EXAM	20%		
CLASS PARTICIPATION*	25%*	(see asterisk below)	

* You are entitled to one unexcused absence. After that, each unexcused absence results in a one-step reduction in this grading element (B+ to B, and so on). Excellent attendance with minimal or no class participation results in a “class participation grade” of B-.

COURSE MATERIALS

WORKBOOK (posted on LATTE)

“Real Estate Financial Analysis Workbook”. Please read, and do the first four (4) exercises, pp. 1-22.

HBS CASES

503 Cricket Road	(9-396-001)
Prospect Hill	(9-390-011)
Angus Cartwright III	(9-375-376)
Steel Street	(9-210-010)
The Schneider Building	(9-396-043)
IBET Pension Fund	(9-800-133)

CASES WRITTEN BY E. CHAZEN

Arborpoint at Woodland Station
Alewife Gateway Park

HBS NOTES

Tenant and Landlord Rights	(9-804-161)
Financial Analysis of Real Property Investments	(9-379-193)
Understanding the Credit Crisis of 2007-2008	(9-209-073)
Note on Commercial Real Estate Financial Market	(9-802-165)

ARGUS 14

As noted on p.1, Argus Software, Inc. has generously given us a free license to a LAN-based version of their industry-standard package, Argus 14. ARGUS is a sophisticated financial analysis program that allows users to analyze and forecast cash flows from commercial RE ventures, including office, retail, industrial, apartment, hotel, motel, and other commercial properties. I recommend that you take the time to familiarize yourself with the package, especially if you are interested in pursuing a career in the U.S. in commercial real estate. (During interviews, ARGUS often comes up, and it is a clear weakness if you say you haven't worked with it.) IBS will try to arrange an on-campus training session outside of normal class time.

COURSE OUTLINE

study guides and/or assignments for each class are posted on LATTE

<u>DATE</u>	<u>CASE/READINGS</u>	<u>TOPIC</u>
Thur, 8/30	Class Lecture and Discussion	Introduction to Commercial Real Estate Common real estate terminology
Tues, 9/4	RE Financial Analysis Workbook <i>Tenant and Landlord Rights</i>	Fundamentals of leases, property underwriting, design and market research
Thur, 9/6	503 Cricket Road <i>Financial Analysis of Real Property Investments</i>	Analyzing a real estate investment
Tues, 9/11	Class Lecture and Discussion	Understanding the development process
Thurs, 9/13	Prospect Hill	Issues in real estate development
Tues, 9/25	Arborpoint at Woodland Station	Case Study of a challenging development
Thur, 9/27	Mid-term Exam	
Tues, 10/2	Class Lecture and Discussion <i>Understanding the Credit Crisis of 2007-2008</i> <i>Note on Commercial RE Financial Market</i>	Overview of RE capital markets
Thur, 10/4	The Schneider Building	Real Estate as a user versus investor
Thur, 10/11	Angus Cartwright III <i>Principals, Agents, and Partners</i>	Evaluating risk and return in real estate
Tues, 10/16	Class Lecture and Discussion	Re-structuring non-performing properties
Thur, 10/18	Steel Street	Resolving troubled renovation projects
Tues, 10/23	Alewife Gateway Park	Guest speaker, Eric Schlager Bulfinch Companies
Tues, 10/30	IBET Pension Fund	Thinking like an investment manager