REAL ESTATE FINANCE  
BUS 137a  
Summer 2014

Monday, Tuesday, Wednesday & Thursday, 10:00 am – 12:00 pm  
Classroom: T-B-D

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(781) 736 4825

OVERVIEW

This course builds on the content and methodology students learned in BUS 35a, Real Estate and Society, with a focus on debt and equity financing of income-producing real property, primarily in the U.S. market. Using case discussion, lectures, readings and problem solving from the text, and guest speakers, the course considers real estate finance from the perspective of the users of capital (developers and property owners) and the sources of capital (lenders and equity investors). The course also considers the role of the public sector in using tax payer funds to advance public purposes by offering various kinds of subsidies to developers, and evaluating the relative success of such programs.

The primary student outcomes are the ability to discuss and present a professional financing request for debt and equity, understand how to structure a financing of commercial real estate, and appreciate the diverse ways financing can be used to influence community and neighborhood improvement. The course also integrates with and supports the experiential learning goal of the JBS program, by giving students important tools to use in their real estate field project (BUS 95a) that immediately follows BUS 37a.

LEARNING GOALS & OUTCOMES

Understand the sources and uses of real estate capital: characteristics, pricing, structuring of terms and risks of different components of the real estate “capital stack”

Be familiar with the underwriting and basic business terms of each type of real estate financing: construction loans, permanent loans, joint ventures and hybrid debt-equity financing

Learn how to apply Excel-based real estate financial analysis: estimate the financing capacity and metrics of income-producing properties via a cost basis, direct capitalization approach and a discounted cash flow analysis

Appreciate how Government financing can influence property development: Federal and State programs to develop and upgrade property as part of larger social goals of community renewal, job creation and other public purposes

Understand the modeling of cash flow projections: how to develop reasonable assumptions and learn how to use sensitivity analysis in decision-making
Gain an understanding of loan work-outs and borrower-creditor rights: role play lender/investor/borrower to understand how troubled properties get re-structured

**PREREQUISITE:** BUS 35a.

**COURSE REQUIREMENTS**

**Required Reading**

There are two HBS cases and one HBS note that you will need to buy. I will post on LATTE two additional cases I wrote that will be required case studies for this course and from time to time will post interesting articles about the financing of commercial real estate.

Students will be required to purchase selected chapters from *Real Estate Finance and Investments, 14th edition, Brueggeman & Fisher* published by McGraw-Hill Irvin. During the course selected chapter problems will be assigned; though ungraded, it is important that all students complete the exercises, which we will review in class.

Follow these steps to purchase the eBook from the publisher. The cost is about $30; it will save you about $100 compared with purchasing the entire text book – which you do not need for this course.

3. ISBN: 9781121981232
4. Title: Real Estate Finance Summer 2014

I have established the following coursepack with HBS Publishing; look for Real Estate Finance Summer 2014: [https://cb.hbsp.harvard.edu/cbmp/access/22794367](https://cb.hbsp.harvard.edu/cbmp/access/22794367). This is where you can purchase the two HBS cases and one Note required for the course.

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](http://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](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](mailto:techhelp@hbsp.harvard.edu)

**Attendance and Participation**

Class attendance is required and class participation is critical; this will be a small class, more like a seminar, so I expect active and lively discussions and broad participation. To ensure an effective process, students are expected to use name cards at every session until I get to know each person’s first name. Since this will be a small class I hope that does not take too long. For four (4) classes there will be a case assigned and every student is expected to come prepared to discuss it in detail. Your grade on the case analysis will partly depend upon your participation in the case discussion.
**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 their class participation, written case study assignments and presentation of their team deal competition. *Sunshine Ridge Apartments* and *Steel Street* are individual assignments *(students may not discuss their work with each other)*; *Bourland Companies* and *Burlington Woods Office Park* must be done in teams of students; each team should have 4 students (depending on final enrollment, one team might have 5 students). I will assign students to teams by the first week of the course.

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.

**CLASS PARTICIPATION** 30% *(see asterisk below)*

Please keep a record of your participation, as I will ask for a written self-assessment at the end of the course.

* You are expected to attend every class. Let me know ahead of time if you plan to miss a class because of health or personal reasons. Please do NOT schedule job interviews during class time, nor should you commit yourself to other activities that conflict with your class responsibilities. Excellent attendance, with minimal or no class participation, results in a class participation grade of B-. If you ask good questions and offer interesting comments you can earn a higher grade. I will randomly call on students to encourage broad class participation, so be prepared.

**WRITTEN ASSIGNMENTS** 40%

<table>
<thead>
<tr>
<th>Assignment</th>
<th>Type</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Sunshine Ridge Apartments</td>
<td>INDIVIDUAL</td>
<td>(10%)</td>
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<tr>
<td>Bourland Companies</td>
<td>TEAM</td>
<td>(10%)</td>
</tr>
<tr>
<td>Steel Street</td>
<td>INDIVIDUAL</td>
<td>(10%)</td>
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<tr>
<td>Burlington Woods Office Park</td>
<td>TEAM</td>
<td>(10%)</td>
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**REAL ESTATE DEAL COMPETITION** 30%

By the end of the second week I will give each team (the same teams as for the team case studies) an actual property offered for sale, and each team will have to prepare a financial and market analysis of the property. During the fifth and final week of this course each team will present its financing proposal to a team of students, IBS faculty and (if possible) at least one Boston area real estate professional.
COURSE MATERIALS

TEXT BOOK
*Real Estate Finance and Investments, 14th edition, Brueggeman & Fisher*

HBS CASES
Bourland Companies (9-395-151)
Steel Street (9-210-010)

HBS NOTE
Technica Note on Financial Leverage in Real Estate

CHAZEN CASES (posted on LATTE)
Sunshine Ridge Apartments
Burlington Woods Office Park

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

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<thead>
<tr>
<th>DATE</th>
<th>CASE/READINGS</th>
<th>TOPIC</th>
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<tbody>
<tr>
<td><strong>Week One</strong></td>
<td></td>
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<tr>
<td>6/2</td>
<td><em>Brueggeman &amp; Fisher,</em> Chapter 2, pp 16-25</td>
<td>Introduction to real estate finance Common real estate finance terms</td>
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<tr>
<td>6/3</td>
<td><em>Brueggeman &amp; Fisher,</em> Chapter 11, pp 352-362</td>
<td>Underwriting a financing Risks in each type of financing</td>
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<tr>
<td></td>
<td><em>Chapter 11, problems # 1 and #2</em></td>
<td>Technical Note on Financial Leverage in Real Estate</td>
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<tr>
<td>6/4</td>
<td>Excel for real estate financial analysis <em>Real Estate Financial Analysis Workbook</em></td>
<td>The “numbers” in RE finance</td>
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<td>6/5</td>
<td>Review of various types of financing <em>Brueggeman &amp; Fisher, Chapter 12, pp. 396-410; Chapter 18, pp, 579-588</em></td>
<td>Sources &amp; Uses of Funds</td>
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| **Week Two** | | |
| 6/9  | Methods to value real estate for financing *Brueggeman & Fisher, Chapter 16, pp. 508-540; Chapter 16, problem #3* | Cost/ value/ DCF |
| 6/10 | **Case study: Sunshine Ridge Apartments** | Valuation and financing of apartments |
| 6/11 | “Sizing” of a financing | Cash flow and financing metrics |
| 6/12 | **Case study: Bourland Companies** | Evaluating financing alternatives |
Week Three

6/16 Overview of the public sector and real estate financing

6/17 US Government role in housing
FNMA, FHLMC and FHA

6/18 Private-Public collaboration in real estate
The “win-win” partnership

6/19 Guest speaker in community lending

Week Four

6/23 Distressed real estate
Bruggeman & Fisher, Chapter 2, pp 26-39

6/24 Case study: Steel Street
A distressed property story

6/25 Work-out Strategies
Lender/investor/borrower rights
Role play work-out situations

6/26 Case study: Burlington Woods Office Park
Re-structuring a troubled property

Week Five

6/30 The real estate “capital stack”
Review of real estate financial analysis

7/01 Real Estate Deal Competition: Team #1

7/02 Real Estate Deal Competition: Team #2

7/03 Real Estate Deal Competition: Team #3