EW MBA 280:
REAL ESTATE INVESTMENT & MARKET ANALYSIS

Spring 2016

Course Description

The first half of the course covers the basics of what you need to know as a real estate investor before buying or developing a property. We start with the pro forma, which is the financial analysis of an income-producing property that is used to make investment decisions in the real estate industry. We cover a number of topics related to completing the pro forma such as taxation, mortgages, valuation and leases. We then turn to the non-financial analysis of the real estate investment decision, and consider issues of land use and entitlement of a property, as well as the market drivers of demand for real estate space.

The second half of the course introduces a variety of real estate topics. First we discuss the organization of partners in a real estate investment, and in particular the creation of a Real Estate Investment Trust (REIT). We then discuss topics in real estate finance such as underwriting a loan from the perspective of a bank, and the sources of commercial real estate finance. We then discuss market adjustments and real estate cycles, which are a pervasive feature of the real estate business. We then cover an overview of owner-occupied single family housing, which is a very important market although the course focuses on income-producing real estate.

We conclude with a review of the skills acquired throughout the course, with a view to preparing for the final exam, and a lecture on the frontier of research in real estate featuring topics such as urban revival, e-commerce, big data, and real estate tech startups.

The course covers various property types, including office buildings, single- and multi-family residential, industrial space, retail properties and mixed-used projects. A series of case studies and of classroom visits by industry professionals serve to illustrate the key concepts covered in lectures, and to introduce you to more specialized topics.

Course Organization

The course will meet every Saturday from 1-4pm. Twelve lectures will be held at Haas School of Business in room C125, on January 23 and 30, February 6, 13 and 20, March 5 and 19, April 4, 9 and 23 and May 7. Three lectures will be held at Cañada College on March 12, April 16 and April 30. Cañada College is located at 4200 Farm Hill Boulevard, Redwood City. The exact classroom is TBA, and lunch will be provided at the College.
I will hold weekly office hours after class on Saturdays from 4-5pm. My office is in the main faculty building on the 6th floor (F616). I am happy to schedule appointment outside of office hours via email. I will also be available to meet after classes held at Canada College. The GSI for this class is Daria Filippova (daria.filippova@berkeley.edu), and she will also set up times to meet with students.

**Evaluation**

**Case Study Write-up:** 20%. There will be four case study write-ups to be handed in physically in class and/or electronically at my e-mail address before the beginning of the class during which we discuss the case. I will hand in the assignment for each case write-up two weeks before the due date. The write-up must be done in teams of 3 or 4 students. As far as grading is concerned, the write-up will be graded on a regular scale, based on the validity of your analysis.

**Midterm exam:** 25%, will be held on March 12th. The midterm will consist mostly of a pro forma analysis, similar to that in previous midterms for this class that I will post on bCourse.

**Final exam:** 40%. The final exam will require you to use the tools and skills you have developed during the entire class. The best way to prepare for the exam is to prepare for, attend, and actively participate in every class. There will be a review session in class two weeks before the exam.

**Class Participation:** 15%. Much of the learning in this course occurs in class, and it is thus fundamental for you to attend every session and participate actively, especially in case discussion. Your participation will be evaluated based on both the quality and frequency of your contributions. In order to facilitate evaluation, I ask you to sit in the same general area for the duration of the semester.

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<thead>
<tr>
<th>Evaluation</th>
<th>Date Due</th>
<th>Percentage of Total</th>
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<tbody>
<tr>
<td>Case Write-up: Angus Cartwright IV</td>
<td>February 13th</td>
<td>5%</td>
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<tr>
<td>Case Write-up: Busse Place</td>
<td>March 5th</td>
<td>5%</td>
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<tr>
<td>Mid-term</td>
<td>March 12th</td>
<td>25%</td>
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<tr>
<td>Case Write-up: Pier One</td>
<td>April 16th</td>
<td>5%</td>
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<tr>
<td>Case Write-up: Rick’s Dilemma</td>
<td>April 30th</td>
<td>5%</td>
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<tr>
<td>Final exam</td>
<td>May 14th</td>
<td>40%</td>
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<tr>
<td>Participation</td>
<td>Every Class!</td>
<td>15%</td>
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<td><strong>Total</strong></td>
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Readings and learning material


HBS Notes (optional): I created an additional “optional reading” package that you can purchase on Study.net. The package consists of nine “industry notes” from HBS, of about 10-15 pages each, on different real estate topics. These notes are including in the detailed syllabus below, as “optional readings” for different lectures. Reading these notes is not necessary for success in any of the course evaluation. However, I encourage those of you who are highly motivated to succeed in the real estate business to read these notes. Relative to the textbook, the HBS notes are more applied and better designed to help you make good decisions as an investor or as a manager.

Case Studies: We will cover seven cases in class. Six of them are HBS case studies, all available on Study.net (there is a link to Study.net on bCourse). The seventh case will be taught by Dennis William, and will be posted on bCourse. The cases are intended both to teach new concepts and to complement the lecture. Pinckney Street is an introductory case highlighting the many hurdles one has to go through to find and acquire a small income-producing property. Angus Cartwright IV is a classic case on the financial analysis of real estate investments. The case asks you to create pro formas for four different property investments and to consider a range of factors influencing their profitability. Busse Place is a case about leasing a building in difficult market conditions. The case also covers negotiations and career decisions. Walden Woods is a case about how environmental activism can bring a project to halt. AMB Consolidation is about a private investment advisor's plan to restructure and go public as a REIT. The case describes how REITs are characterized as an investment asset, and relates the cash flow measures that are standard in real estate to the traditional measures in corporate finance. Pier One is about loan underwriting for the conversion of a former industrial building into an office, in an innovative location at Pier One in San Francisco. The case leads to a discussion of rapidly changing neighborhood characteristics, suboptimal configuration in a market segment, and unique tenant mix. Finally Rick’s Dilemma is a short case about how to value a unique asset in NYC’s Plaza District, which suggests some limitation to the tools that we have covered in class.

Slides: All lecture slides will be posted on bCourse on the Wednesday prior to the lecture. I will sometimes post additional readings along with the Slides, as specified in the detailed syllabus below. These readings will be available on bCourse in the module corresponding to each lecture.

Software: You will need Microsoft Excel to complete the exams and the Case write-ups.

Guest Lecturers: Our guest lecturers are chosen to complement the lectures and to provide you with exposure to accomplished professionals in various real estate segments. I will post any material that they send me on bCourse prior to the lecture. Our first guest, Doug Wiele, is a founding Partner at Foothill Partners. He will give us a blow-by-blow account of a retail development deal in the Berkeley area. John S. Rahaim is the Planning Director of San Francisco. He will talk to us about the political process of development in San Francisco. Jeff Weber is a Senior Managing Director at Eastdil Secured. He will give us an update on capital markets, and discuss the real estate investment banking business. Dennis William is a senior Vice President and managing director at NorthMarq Capital. He will teach the Pier One case about underwriting an office building. Yat-Pang Au is the CEO and founder of Veritas Investments. He will talk to us about his strategy for success in the San Francisco multi-family market.
Nav Athwal is the CEO and founder of RealtyShares, and he will lecture on exciting new developments in real estate crowdfunding and about his experience building a real estate start up.

Detailed Syllabus and Schedule

Lecture 1: January 23rd

Slide A: Overview and Preliminaries
- Optional reading, *HBS Note: “A Note on Real Estate Research”, available on Study.net.*

Case Study: Pinckney Street
- Required reading, *HBS Case Study: Pinckney Street, available on Study.net.*

Lecture 2: January 30th

Slide B: Introduction to Pro forma
- Required reading: *Brueggeman and Fisher, Chapter 9 (pp. 276-289) and Chapter 11 (pp. 343-366).*
- Required reading: “Pro forma Summary”, available on bCourse.
- Optional reading: “Basic Finance for Real Estate Investment Analysis”, available on bCourse
- Optional reading, *HBS Note: “Financial Analysis of Real Property Investments”, available on Study.net.*

Slide C: Taxation
- Required reading: *Brueggeman and Fisher, Chapter 11 (pp. 366 - 376).*
- Optional reading, *HBS Note: “Note on Taxation”, available on Study.net.*

Lecture 3: February 6th

Slide C: Taxation (continued)

Guest Speaker: Doug Wiele, Founding Partner at Foothill Partners

Lecture 4: February 13th

Case Study: Angus Cartwright IV
- Required reading: *HBS Case Study: Angus Cartwright, available on Study.net.*
- Deliverable: *Angus Cartwright Case write-up due.*
Slide D: Commercial Mortgages
- Optional reading: Brueggeman and Fisher, Chapters 5.
- Optional reading, HBS Note: “Technical Note on Financial Leverage in Real Estate”, available on Study.net.

Lecture 5: February 20th

Slide E: Land Use Regulation (legal and political analysis)
- Required reading: Brueggeman and Fisher, Chapter 16 (pp. 517-526).
- Required reading: Brueggeman and Fisher, Chapter 17 (pp. 554-561).
- Optional reading: HBS Note: “Environmental Law in Real Estate Transactions”, available on Study.net.

Guest Speaker:
- John S. Rahaim, Planning Director, City and County of San Francisco

Lecture 6: February 27th

Case Study: Walden Woods
- Required reading: HBS Case Study: Walden Woods, available on Study.net.

Slide F: Leases
- Required Reading: Brueggeman and Fisher, Chapter 9 (pp. 264 – 276).
- Optional reading: HBS Note: “Tenant and Landlord Rights”, available on Study.net.

Lecture 7: March 5th

Case Study: Busse Place
- Required reading: HBS Case Study: Busse Place, available on Study.net.
  - Deliverable: Busse Place Case write-up due.

Slide G: Valuation
- Required reading: Brueggeman and Fisher, Chapter 10.
Lecture 8: March 12th (in Cañada College)

Midterm
- Covers all material from Lecture 1 to 7.
- Bring laptop with excel to complete pro forma exercise.

Complete Slide G: Valuation

Lecture 9: March 19th

Slides H: Market Analysis (economics analysis)
- Required Reading: Brueggeman and Fisher, Chapters 9 (pp. 254-266).

Slide I: Ownership Structures
- Brueggeman and Fisher, Chapter 18.
- Optional reading, HBS Note: “Note on Forms of Real Estate Ownership”, available on Study.net.

Spring Break (March 21st to March 27th)

Lecture 10: April 2nd

Slide J: REITs
Brueggeman and Fisher, Chapter 21.

Case Study: AMB consolidation
- Required reading: HBS Case Study: AMB Consolidation, available on Study.net.
- If time, we’ll watch a video on governance and management during the crisis.

Lecture 11: April 9th

Slide K: Topics in Real Estate Finance
- Required Reading: Brueggeman and Fisher, Chapter 12 (pp. 404-408).
- Optional reading, HBS Note: “Note on Commercial Real Estate Financial Market”, available on Study.net.
- Optional reading, HBS Note: “How Institutional Investors Think About Real Estate”, available on Study.net.

Guest speaker: Jeff Weber, Senior Managing Director at Eastdil Secured
**Lecture 12: April 16^{th} (in Cañada College)**

Case study: Pier One, with Dennis William, senior VP & managing director at NorthMarq Capital
- Required reading: *Pier One*, available on bCourse.
- **Deliverable**: Pier One Case write-up due.

**Slide L: Real Estate Market Adjustments and Cycles**

**Lecture 13: April 23^{rd}**

**Slide M: Single Family Housing**
- Required Reading: Brueggeman and Fisher, Chapters 7.
- Optional Reading: Brueggeman and Fisher, Chapters 8.

**Guest speaker: Yat-Pang Au, Founder and CEO of Veritas investment**

**Lecture 14: April 30^{th} (in Cañada College)**

Complete Slide M on Single Family Housing.

Case study: Rick’s Dilemma
- Required reading: *HBS Case Study: Rick’s Dilemma*, available on Study.net.
- **Deliverable**: Rick’s Dilemma Case write-up due.

**Lecture 15: May 7^{th}**

**Slide N: Urban Revival in America**

**Guest speaker: Nav Athwal, Founder & CEO of RealtyShares**
Final Exam: May 14th (in Cañada College)