EW MBA 280 - II:
REAL ESTATE INVESTMENT & MARKET ANALYSIS

Spring 2018

Course Description

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

The second half of the course introduces a variety of topics related to real estate investment. First, we discuss the different forms of ownership of real estate assets. We then cover topics in real estate finance such as the underwriting real estate loans, 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 conclude with an overview of owner-occupied single-family housing.

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 key concepts covered in lectures, to build your professional network, to learn about career opportunities, and to introduce you to specialized topics.

The course has historically had success at placing students in various real-estate positions, but more broadly draws students from diverse career paths who anticipate facing real estate investment decisions. A term project gives students a way to showcase their skills when they describe their coursework in job interviews.

Course Organization

The course will meet every Saturday from 1 to 4pm. The lectures are held in the new building of Haas School of Business, in Chou N170. There is a 15-minute break at 2:30pm.
I will hold weekly office hours after class on Saturday 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. The GSI for this class is Eric Tecza (eric.tecza@mba.berkeley.edu). Eric will also set up a weekly office hour to meet with students.

**Evaluation**

Case Study Write-up: 15%. There will be three case study write-ups to submit by e-mail to Eric and I 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-ups must be done in teams of four students.

Midterm exam: 25%, to be held in class on February 24th. 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.

Term project: 40%. You will create teams of four to conduct the project. If you are not in a team by February 3rd, then I will choose a team for you based on your background. The objective of the project is the careful analysis of a real estate investment. You have a lot of flexibility in choosing a real estate investment for your project. The only requirement is that your project analyzes the development, acquisition, or financing of an existing property, as opposed to a hypothetical one. You are also free to conduct your project from the perspective of any investor that you choose. For instance, you can be a private equity or public REIT manager considering the acquisition of an office tower in San Francisco, or a banker underwriting a mortgage to a shopping center, or just yourselves considering an investment in a small multifamily building in Seattle. Between February 17th and March 3rd, each team must set up a short meeting with me – e.g., during my office hours, during our class break - to discuss their proposed project. The graded output from the project consists of:

1) A five-page executive summary describing the proposed investment, summarizing the financial analysis of the project including key pro forma tables, discussing any land use issues, and including a short market analysis and an assessment of investment risk. This summary should mention all data sources used in the analysis.

2) A detailed excel pro forma.

3) A 15-minute (exact duration TBD) in-class presentation on April 28th, in front of an expert panel of three members of the Haas School Board. Every team member must participate in the in-class oral presentation of the project. The summary, pro forma, and presentation slides are due on Friday April 27th before 5pm, by e-mail to Eric and I.

Class Participation: 20%. Much of the learning in this course occurs in class, and it is thus important to attend every session and to participate actively, especially in case discussion. I will evaluate your participation 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.
<table>
<thead>
<tr>
<th>Evaluation</th>
<th>Date Due</th>
<th>Percentage of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Case Write-up: Angus Cartwright IV</td>
<td>February 10th</td>
<td>5%</td>
</tr>
<tr>
<td>Case Write-up: Busse Place</td>
<td>February 17th</td>
<td>5%</td>
</tr>
<tr>
<td>Mid-term</td>
<td>February 24th</td>
<td>25%</td>
</tr>
<tr>
<td>Case Write-up: Westpark</td>
<td>April 14th</td>
<td>5%</td>
</tr>
<tr>
<td>Term Project</td>
<td>April 25th</td>
<td>40%</td>
</tr>
<tr>
<td>Participation</td>
<td>Every Class!</td>
<td>20%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

**Readings and learning material**


**Slides:** I will post all lecture material on bCourse on the Wednesday prior to the lecture, in the module corresponding to each lecture.

**Case Studies:** We will cover five cases in class. Four of them are HBS case studies, available on Study.net (there is a link to Study.net on bCourse). The fifth 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. *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. *Westpark* is about developing a planned community. It covers everything that can go wrong when undertaking a large real estate development.

**HBS Notes (optional):** I created an additional “optional reading” package that you can purchase on Study.net. The package consists of ten “industry notes” from HBS, of about 15 pages each. You will see these notes in the detailed schedule below as “optional readings” for different lectures. You do not need to read these notes to perform well in any of the course evaluation. However, I encourage those highly motivated to succeed in the real estate business to read them. Relative to the textbook, the HBS notes have more practical applications and advice to help you make good investments.

**Library Sources:** Monica Singh (msingh@library.berkeley.edu), a business librarian at Haas, has created a guide to library sources for the real estate industry, available at
http://guides.lib.berkeley.edu/real_estate. She also created another website with more detailed information specifically for this course: http://guides.lib.berkeley.edu/c.php?g=457485. Both links are available in the Asset Library on bCourse.

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

**Guest Lecturers:** The guest lecturers will complement the lectures and provide you with exposure to accomplished professionals in the real estate industry. I will post any material that they send me on bCourse prior to the lecture. Our first guests, Jamin Seid and Robert Basso are co-founders of Cannae Partners. They are former students in this course, who graduated from Haas in 2003 and started an investment company together. They will give us a blow-by-blow account of their first major deal. John Rahaim is the new Planning Director of San Francisco. He will talk to us about the legal and political process through which real estate happens in San Francisco. Connie Moore is the former CEO of BRE Properties, and the chairman of the Policy Advisory Board of our Fisher Center for Real Estate and Urban Economics at UC Berkeley. She will lecture about Real Estate Investment Trusts and the multifamily residential market. Ray Sturm is the CEO and founder of AlphaFlow. He will lecture about new developments in real estate crowdfunding and about his experience building a real estate start up. Jeff Weber is a Senior Managing Director at Eastdil Secured. She will lecture about the real estate investment banking business, discuss some recent deals, and give us an update on capital markets. Bill Falik is the Managing Partner of Westpark Community Builders and the CEO of Live Oak Enterprises, and he teaches land use and real estate development at Boalt and Haas. He will teach the Wespark case studies, based on his own experience developing this community. Sam Caven is Vice President, Acquisitions, at Starwood Capital Group. He will lecture about the private equity real estate business and share his views about best practice in the acquisition of real estate assets.

**Expert Panel for In-Class Presentation on April 28th:** An expert panel will join us on April 28th to provide constructive feedback on your term projects. They will also advise me on grading these projects. All panelists are Haas alumnis, members of the Haas School Board, and real estate professionals. Tony Chan, BS 74 is the owner and General Partner of WorldcoCo. LLC. Carol M. Meyer, BS 69, MBA 71, is Chairman of Greenbriar Homes Communities. Jerry Weintraub, BS 80 is Founder and General Partner of Weintraub Capital Management L.P.

**Detailed Syllabus and Schedule**

---

**Lecture 1: January 20th**

**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 27th**


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.
- Optional reading, HBS Note: “Affordable Housing and Low-Income Tax Credits in the United States”, available on Study.net.

Lecture 3: February 3rd

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.

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

Lecture 4: February 10th

Case Study: Angus Cartwright IV
- Required reading: HBS Case Study: Angus Cartwright, available on Study.net.
- Deliverable: Angus Cartwright IV case write-up due.

Guest Speaker: Jamin Seid and Robert Basso, Principals Cannae Partners
- Starting a real estate development company and executing on the first large deal.

Lecture 5: February 17th

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

Slide F: Valuation
Lecture 6: February 24th

Midterm
- Covers all material from Lecture 1 to 5.
- Bring laptop with excel to complete pro forma exercise.

Slide G: Land Use Regulation (legal and political analysis)
- Required reading: Brueggeman and Fisher, Chapter 10 (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.

Lecture 7: March 3rd

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

Guest Speaker: John Rahaim, Planning Director, City and County of San Francisco
- How to navigate legal and political hurdles in San Francisco and elsewhere.

Lecture 8: March 10th

Slides H: Market Analysis, continued

Slide I: Ownership Structures (partnerships, joint ventures, private equity, REITs)
- Brueggeman and Fisher, Chapter 18.
- Optional reading, HBS Note: “Note on Forms of Real Estate Ownership”, available on Study.net.
- Optional reading, Darden Note: “The Basics of Private Equity Funds”, available on Study.net.

Lecture 9: March 17th

Guest Speaker: Connie Moore, former CEO of BRE Properties
- Real Estate Investment Trusts and the multifamily residential market.

Slide I: Ownership Structures, continued
Lecture 10: March 24th

Guest Speaker: Ray Sturm, CEO and Founder, AlphaFlow
- Real estate syndication, crowdfunding and fintech.

Case Study: AMB consolidation
- Required reading: HBS Case Study: AMB Consolidation, available on Study.net.

Lecture 11: April 7th

Guest speaker: Jeff Weber, Senior VP & Managing Director at Eastdil Secured
- Real estate investment banking, recent deals, and capital market update.

Slide J: 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.

Lecture 12: April 14th

Case study: Westpark, by Bill Falik, Managing Partner of Westpark Community Builders, CEO of Live Oak Enterprises
- Required reading: Westpark, available on bCourse.
- Deliverable: Westpark write-up due.

Slide K: Real Estate Market Adjustments and Cycles
- Required Reading: Glaeser, E. (2013) “A Nation of Gamblers: Real Estate Speculation and American History”, American Economic Review: Papers and Proceedings, 103(3), 1-42 (A shorter and simpler version of the paper is also available on bCourse.)

Lecture 13: April 21st

Guest speaker: Sam Caven, Vice President, Acquisitions, Starwood Capital Group
- Real estate private equity and the acquisition of real estate assets.

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

Lecture 14: April 28th

Presentations in Class

Expert Panel:
Tony Chan, BS 74, Owner and General Partner of WorldcoCo. LLC.
Carol M. Meyer, BS 69, MBA 71, is Chairman of Greenbriar Homes Communities.
Jerry Weintraub, BS 80 is Founder and General Partner of Weintraub Capital Management L.P.