Course Overview

This course provides an overview of real estate markets; the analysis used to support financial decision-making and associated capital market applications. The course will cover (1) residential housing and mortgage products, including securitized residential debt; (2) the commercial property market and the techniques used to value and finance investments; (3) the structure and real estate fundamentals of the securitized commercial debt (CMBS and CDO) and equity vehicles (REITs) for real estate. Several case studies will be utilized to provide insight into current market practices. Class discussion will include analysis of current real estate market conditions and events.

The textbook for this course will be *Real Estate Finance and Investments -14th edition* by William B. Brueggeman and Jeffrey D. Fisher. Six cases will be included as required readings. The cases should be purchased directly from Harvard Business School Publishing through a link that I will include in Concourse. Please bring the case assigned to a class to that class.

Grading

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<th>Course Activities</th>
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<td>1. Attendance</td>
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<td>2. Case write-ups</td>
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<td>3. Case discussion and class participation</td>
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<td>4. Midterm Test</td>
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a. Attendance at each class is expected. If you cannot attend a particular class, please notify me prior to that class and please be certain that any assignments are emailed to me prior to that class.

b. Case write-ups are due at the end of each class discussion of that case. Grading will be based on thoughtfulness of write-up rather than length. You may refer to your case write-ups during the discussion of the cases in class. Each case will have specific items that need to be included in your write-up. Information regarding requirements for each case write-up will be available on Concourse.

c. Midterm Exam: Will be based on the course material covered in first two classes.

d. Final Exam: Will be primarily based on material covered in classes 3-6 as well as the Mulligen Creek Case.

e. Case and Class Participation – active participation in class discussion is encouraged. Participation includes asking or answering a question as well as timely submission of all assignments. Please be familiar with key terms of each chapter prior to the class in which they will be discussed. A listing of key topics and terms for each chapter is included as part of this syllabus.
Real Estate Finance and Investments
14th Edition

Class 1

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5. Meaning of Title 7
6. Deeds 9
7. Methods of title insurance 9
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10. Limitation on Property Rights 13

Key Terms
Abstract of Title, Bargain and sale deed, Deed, Deed restrictions, Easement, estate, fee simple estate, general warranty deed, leasehold estate, lender’s (or mortgagee) policy, lessee, lessor, mechanics lien, non-possessory interest, owner’s policy, owner’s rights, personal property, property rights, quitclaim deed, real estate, real property, recording acts, secured interest, sheriff’s deed-trustee’s deed, special warranty deed, title, title assurance.

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Key Terms
After acquired property clause, assumption of mortgage, covenants, due on sale clause, first mortgage, fixture, future advances, junior mortgage, land contract, mortgage document, mortgage default, purchase money mortgage, second mortgage, seller financing, subordination clause, “with recourse”.

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Fixed Interest Rate Mortgage Loans 77-105

Key Terms
Accrual rate, amortization, annual percentage rate (APR), balloon payment, constant amortizing mortgage (CAM), constant payment mortgage (CPM), default risk, derived demand, effective annual interest, fully amortizing loan, interest only loan, interest rate risk, legislative risk, loan closing costs, loan constants, loan discount fees, loan origination fees, negative amortizing loan, nominal interest rate, partially amortizing loans, pay rate, points, prepayment penalty, prepayment risk, real rate of interest, reverse annuity mortgage (RAM), zero amortizing loan.

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Key Terms
Actual start date, adjustable rate mortgage (ARM), adjustment interval, caps, composite rate, expected start date, floating rate loan, floors, index, interest rate risk, margin, negative amortization, interest only ARMs, payment shock, reset date, spread, teaser rate.

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Key Terms
Buydown loans, effective cost of refinancing, incremental cost of borrowing, marginal cost of borrowing, market value of a loan

Class 2

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Key Terms
Base industries, capitalization effect, capital gains exclusion, comparable properties, cost approach, driver industries, economic base, gross rent multiplier, income approach, loan-to-value ratio, location quotient, market value, overimprovement, public goods, sales comparison, submarket, wealth effect.

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Key Terms
Conventional mortgage loans, default insurance, Department of Veterans Affairs (VA), Federal Housing Administration (FHA), loan-to-value, mortgage insurance, payment-to-income ratio, subprime loans, underwriting, VA guaranteed mortgage loans.

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Key Terms
Constant prepayment assumption, convexity, Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (FNMA), Government National Mortgage Association (GNMA), mortgage backed bonds, mortgage pass-through securities, pool factor, price compression, PSA prepayment model, secondary mortgage market, weighted average coupon, weighted average maturity

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Key Terms
Collateralized debt obligation (CDO), convexity, derivative securities, floater tranche, inverse floater tranched, IO strips, mortgage pay-through bonds (MPTBs), planned amortization class tranche (PAC), PO strips, scaling, targeted amortization class, tranches

Case – Rosetree Mortgage

Class 3

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Key Terms
Lease-versus-own, sale-leaseback, special purpose buildings

Case – Holt Lunsford

Mid Term Test

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Key Terms
Allowable uses, anchor tenant, base rent, breakpoint sales level, co-tenancy clause, concessions, CPI adjustment, effective rent, estoppel certificate, exclusivity clause, expense pass through, expense stop, free rent, kick out clause, lease, lessee, Lessor, load factor market rent, non-disturbance clause, overage rent, percentage rent, radius clause, rentable area, right of first refusal, tenant improvements usable area, work letter
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Key Terms
Appraisal process, capitalization rate, direct capitalization method, discount rate,
discounted present value, effective gross income, “going-in” cap rate, gross income
multipliers, net operating income, potential gross income, reversion value, terminal cap
rate

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Key Terms
Active income, after-tax cash flow, after-tax IRR, base rent, CPI adjustment, debt
coverage ratio (DCR), depreciable basis, depreciation allowance, effective gross income,
effective tax rate, equity dividend, equity dividend rate, expense stop, internal rate of
return, marginal tax rate, net operating income (NOI), passive income, “real estate cycle”

Case – Wildcat Capital Investors

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Key Terms
Accrual loans, break-even interest rate, bullet loans, convertible mortgage, debt coverage ratio, equity participation loans, financial leverage, incremental cost of debt, interest only loans, lockout clause, lockout period, mezzanine loan, negative amortization, nonrecourse clause, pay rate, positive (favorable) financial leverage, preferred equity, put option, yield maintenance fee

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Key Terms
Business risk, due diligence, environmental risk, financial risk, inflation risk, interest rate risk, legislative risk, liquidity risk, management risk, partitioning the IRR, percentage rent, scenarios, sensitivity analysis

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Key Terms
Build to suit, construction (interim) loan, contingencies, exculpation (nonrecourse) clause, gap financing, hard cost, holdbacks, mini-perm loan, monthly draw method, permanent financing, soft costs, speculative/open ended construction lending, standby commitments, Triparty buy-sell agreement

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Key Terms
Accredited investor, C Corporation, general partner, general partnership, joint venture, Limited Liability Company, limited liability partnership, limited partner, limited partnership, private offering, private syndicate, safe harbor rules, syndication

Case - Savannah West

Class 6

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Key Terms
A Note, B Note, Collateralized debt obligation (CDO) collateralized mortgage obligation (CMO), common (residual) equity, default risk, extension risk, first loss position, lockouts, managed CDOs, mezzanine loan, real estate mortgage investment conduit (REMIC), senior tranche, subordinated tranche

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Key Terms
Book value per share, blended capitalization rate, cash available for distribution (CAD), earnings multiple, earning per share (EPS), earnings yield, FFO multiple, FFO yield, funds from operations (FFO), net asset value (NAV), net income from operations, real estate investment trust (REIT), recovery of capital (ROC), umbrella partnership REIT (UPREIT)

Case – Hotel Perennial
Class 7

Discussion and Review
1. Value Creation in Real Estate: Housing vs. Commercial
2. Mortgages: Residential vs. Commercial
3. Securitized Debt: MBS vs. CMBS
4. Leverage
5. Due Diligence and Scenario Analysis

Final Exam
(The Millegan Creek Case is incorporated into your final exam)