



Course: Real Estate Finance
Term: Fall Semester 2005
Course Number: B40.2339.10
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Classroom: KMEC 2-80
Class Time: Thursdays, 6:00 – 9:00 PM
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Office Hours: By appointment

Course Description and Objectives: This is an introductory course covering the fundamentals of real estate, real estate finance and real estate investment, taught from a distinctly entrepreneurial perspective and directed toward providing students with the fundamental concepts and techniques required to evaluate, acquire and finance income-producing property. A significant portion of the course will be devoted to applying what has been learned in class to real-world transactions. Overall, the course will focus on:

- Understanding the nature of real estate, the ways in which interests in it are conveyed and the ways in which it is owned.
- Gaining familiarity with the language, concepts, agreements and instruments that are critical to real estate transactions, as well as the means and processes employed in negotiating, contracting for, financing and closing a purchase transaction.
- Analyzing cash flows to determine valuations, capital requirements, returns on capital, deal feasibility and the differing results produced by different deal and financing structures.

Required textbook: William J. Poorvu & Jeffrey L. Cruikshank, *The Real Estate Game –The Intelligent Guide to Decision-Making and Investment* (The Free Press {Simon & Schuster}), 1999.

Recommended: Lisa Holton, *The Essential Dictionary of Real Estate* (Barnes and Noble), 2003.

In addition, there will be handouts and other assignments from time to time to supplement textbook readings and classroom topics. Students will be expected to stay abreast of real estate news in the financial press (e.g., Wednesday's *Wall Street Journal* and Sunday's *New York Times*) as part of their acculturation to the real estate industry and to bring their insights and comments derived therefrom to class discussion.

The class will involve considerable input from and presentations by students. Much of the material will be covered only in the classroom and a significant portion of your grade

will be based upon classroom performance and contributions, so students are cautioned that classroom attendance is a critical aspect of this course.

Prerequisites: Familiarity with the basic financial functions of a financial calculator (HP 12C or equivalent) and with Excel.

Course Methodology: The subject matter of this course is not linear in nature. In order for you to gain a firm foundation, you will need to absorb a diverse array of information, including terminology, legal concepts, financial analysis concepts and risk/reward concepts and methodology. As we begin to make progress with the material, you will form into groups to examine and research potential building acquisitions and will thereafter make purchase, financing and deal structure recommendations to your firm's acquisition committee (the class). Periodically, we will have guest speakers with relevant experience. As a result, your experience will be comprised of:

- Reading
- Lectures
- Deal presentations
- Guest speakers
- Staying abreast of market news and trends
- Discussion and analysis.

Grading: Grading will be calculated in accordance with the following formula:

- Deal presentations: 20%
- Classroom contribution: 10%
- Midterm examination: 35%
- Final examination: 35%

Just as in the business world, the quality of your preparation and ability to communicate your points clearly and convincingly will significantly affect how your work is perceived and evaluated.

Examination Policies: The final examination will be cumulative. You must take both the midterm and final examinations and, in order to be fair to your fellow students, you will not be permitted to make up either examination except under truly extraordinary circumstances meriting an exception.

Project Policies: Note that you will be required to work with others on certain assignments. Groups will be called upon to present data and recommendations, and each group member will be required to participate in that presentation. The group's performance will, as a result, be affected by the performance of its individual members.

Honor Code: You are expected to comply with Stern's Honor Code.

Email: Please check your email regularly as I may be sending reading materials, questions and other items that we will discuss in class.

Classroom Civility: You are expected to arrive on time and conduct yourself appropriately. Please use your laptop only for classroom purposes.

Names: Please help me by displaying your name card at your seat and by mentioning your name when we speak privately.

Course Outline and Schedule* :

<i>Date</i>	<i>Topics</i>	<i>Assignments</i>	<i>Miscellaneous</i>
9/22	<ul style="list-style-type: none"> ▪ Course introduction and overview ▪ Cycles and trends: The ever-changing real estate market ▪ Characteristics of real estate ▪ How real estate is “owned” ▪ Recording and constructive notice ▪ Thinking like a real estate person ▪ The real estate investment analysis spreadsheet 	<ul style="list-style-type: none"> ▪ <i>The Real Estate Game</i> (students are expected to complete reading this book by the midterm examination) ▪ “Where do we go from here” (excerpts from a speech given by Daniel Rose to a group of foreign investors in U.S. real estate at the Plaza Hotel, New York City, as published in Real Estate Weekly, September 23, 1992) ▪ “Frenzy at the Fringes” and other articles (Crain’s New York Business, May 10, 2005) ▪ “Is Your Apartment Like a Dot-Com Stock: What the tech-stock boom and bust can teach us about New York real estate and what it can’t ” (New York Magazine, May 17, 2005) ▪ “Worried landlords are looking to sell” (Crain’s New York Business, May 30, 2005) ▪ “Fed Hike Creates Perfect Storm” (Real Estate Weekly, July 6, 2005) ▪ “Schrager Quits Hotel Company” (NY Times, July 12, 2005) 	

* Subject to revision.

<i>Date</i>	<i>Topics</i>	<i>Assignments</i>	<i>Miscellaneous</i>
9/29	<ul style="list-style-type: none"> ▪ The commercial real estate loan: nature, elements and concepts. ▪ Lenders and their distinguishing characteristics ▪ Critical loan terms and conditions ▪ Considerations affecting loan term and amount ▪ Mortgage calculations (financial calculator, Excel and mortgage calculator) 	<ul style="list-style-type: none"> ▪ Promissory note and mortgage (<i>scan</i> both documents but <i>read</i> sections in bold print) ▪ Non-disturbance agreement 	<ul style="list-style-type: none"> ▪ Guest speaker: Brian Smalley, Vice President, M & T Bank ▪ Distribute mortgage calculation worksheet
10/06	<ul style="list-style-type: none"> ▪ The commercial real estate lease: function, elements and concepts (part 1) 	<ul style="list-style-type: none"> ▪ Commercial lease (<i>scan</i> entire document but <i>read</i> sections in bold print) ▪ Examine: model office spreadsheet ▪ Mortgage calculation worksheet due 	
10/20	<ul style="list-style-type: none"> ▪ The commercial real estate lease: function, elements and concepts (part 2) ▪ The leasing broker ▪ TI (the tenant workletter) ▪ Rent vs. net effective rent—amortizing transactional costs of the lease ▪ Categories of office, retail and warehouse/industrial properties ▪ Review of Model Spreadsheet 	<ul style="list-style-type: none"> ▪ Brokerage agreement ▪ Cushman & Wakefield leasing market report 	<ul style="list-style-type: none"> ▪ Guest speaker: Ivan Moskowitz, Esq.
10/27	<ul style="list-style-type: none"> ▪ Property tour [location to be disclosed] ▪ Pre-midterm review ▪ Student Q & A 	<ul style="list-style-type: none"> ▪ <i>Two Psychological Traps in Negotiation</i> (HBS 9-897-036) 	
11/3	<ul style="list-style-type: none"> ▪ Midterm Examination 		

<i>Date</i>	<i>Topics</i>	<i>Assignments</i>	<i>Miscellaneous</i>
11/10	<ul style="list-style-type: none"> ▪ Putting the deal together: preliminary matters; raising equity ▪ Deal Investigation #1 ▪ Deal Investigation #2 	<ul style="list-style-type: none"> ▪ <i>Note on the Evolution of Retail in the United States</i> (HBS 9-803-017) 	<ul style="list-style-type: none"> ▪ Guest speaker: Mr. Andrew J. Merin, Executive Vice President, Financial Services Group, Cushman & Wakefield
11/17	<ul style="list-style-type: none"> ▪ Putting the deal together: the purchase price; financing ▪ Deal Investigation #3 ▪ Deal Investigation #4 	<ul style="list-style-type: none"> ▪ Mortgage application transmittal letter ▪ Mortgage commitment (<i>scan</i> entire document but <i>read</i> sections in bold print) 	
12/1	<ul style="list-style-type: none"> ▪ Putting the deal together: contract; title ▪ Deal Investigation #5 ▪ Deal Investigation #6 	<ul style="list-style-type: none"> ▪ Offer to Purchase ▪ Purchase and sale agreement (<i>scan</i> entire document but <i>read</i> sections in bold print) ▪ Title report (<i>scan</i> entire document but <i>read</i> sections in bold print) ▪ Survey (examine) 	<ul style="list-style-type: none"> ▪ Guest speaker: Mrs. Ellen Harrison, CPA, Ross, Anglim, Angelini & Co.
12/8	<ul style="list-style-type: none"> ▪ Putting the deal together: due diligence; the closing; post-closing ▪ Deal Investigation #7 ▪ Deal Investigation #8 	<ul style="list-style-type: none"> ▪ Due diligence checklist ▪ Phase 1 report (<i>scan</i> entire document) ▪ Management agreement ▪ Exclusive agency agreement 	
12/15	<ul style="list-style-type: none"> ▪ Full course review ▪ Student Q & A ▪ General discussion 		
12/22	<ul style="list-style-type: none"> ▪ Final examination 		