

Syllabus, Real Estate Primary Markets FINC-GB.2329, Spring Semester AY 2014-15

This **draft** syllabus is subject to future revisions.

Instructor

James A. Stolpestad II

Phone: 203-585-7248

Email: jstolpes@stern.nyu.edu.

The teaching assistant for this class is XX (xx@stern.nyu.edu). His/her office hours will be announced on the NYUclasses site and in the first class. S/He is here to help you through the course. Do not hesitate to contact them with questions about the class material. Please be alert to special workshops before case presentations.

Class time

Monday from 6-9pm for 12 weeks. First class February 9, 2015, last class May 11, 2015. There is no class on Monday, February 16 (Presidents' Day) or Monday, March 16 (Spring Break).

Course Overview

The Real Estate Primary Markets course provides MBA students an accelerated introduction to real estate and a broad and foundational perspective on real estate investments in direct assets within the context of the U.S. markets. It is especially focused toward prospective real estate practitioners in various real estate investment disciplines.

This course is designed with little overlap and to foster synergies with the other two core real estate course offerings; Real Estate Capital Markets (FIN-GB.2339) and Real Estate Transactions (BSPA-GB.2300). It is not necessary to take those core courses in any particular order. Foundations of Finance (FINC-GB.2302) is a pre-requisite.

The course balances qualitative topics and insights with quantitative evaluation and tools. Course work and especially cases will require significant use of Excel and a financial calculator. Argus is not required but can be used for certain cases if students wish. Please bring your calculator to each class.

Key Learning Objectives:

- a) Learn how to create a real estate asset-level cash flow forecast, how to value that cash flow, and how to value basic claims on that cash flow (mortgage, equity position).
- b) Understand categories and motivations of *users of real estate vs. investors in real estate*.
- c) Understand categories and motivations of *users of capital vs. providers of capital*.
- d) Relative to b) and c), appreciate the tensions between counterparties in real estate transactions, the importance of achieving acceptable risk/return trade-offs and to maintain positive relationships for the long-term.

- e) Learn basic features of the four main U.S. property types (office, retail, industrial/warehouse, multi-family apartments), their demand drivers, cash flow characteristics and how to evaluate investments in each sector.
- f) Learn how to present a prospective real estate investment or investment-related recommendation, and how to evaluate a prospective investment.

Teaching Approach:

- a) My aspiration is to spend little time in class on topics that can be learned by reading.
- b) The course relies on discussion of weekly reading materials (so you have to be diligent) and four major case projects done individually or in groups. You will present one of the cases in class. These exercises will attempt to foster insights and perspective related to the Key Learning Objectives.
- c) Pace and Content. The course covers a significant amount of material at a fairly fast pace given the span of students from those casually interested in real estate to those committed to a real estate career. Please lean on your fellow students, the TA, and give me feedback on both pace and depth of content.
- d) Groups & Grading. Real estate businesses are full of groups that need to work effectively together and work in tandem with other groups. My objective is to use real world practices in the classroom and have exercises involving teams that mimic “deal teams,” “asset management teams” and “investment committees.” Group composition is important so please get to know your classmates during the first 2-3 weeks of class so you can assemble into small teams (2-5 depending on class size) with a good cross-sections of skills and experience. There will likely be students with prior real estate work experience, and I will attempt to distribute those students across teams to help you learn from each other.

Course Outline:

The twelve-week course is conceptually divided into 6 sub-categories, each culminating in an evaluation. The format and flow are as follows:

- 1) Foundational elements and perspectives (Class #1, #2).
 - What is real estate?
 - Users vs. investors
 - Users of capital vs. providers of capital
 - Real estate industry players
 - Real estate cash flow forecasting, valuation and basic debt/equity topics
 Evaluated through in-class quiz (10% of total grade weighting).

- 2) Occupancy and Capital Market Research (Class #3). *
 - What are prevailing sources for U.S. occupancy market research? How to interpret and use occupancy market information to make real estate finance and investment decisions.
 - What are prevailing sources of U.S. capital market research? How to interpret and use such information to make real estate finance and investment decisions.
 Evaluated through in-class quiz (10%).

- 3) Industrial sector (Class #4, #5). *
 - Occupier perspective of industrial / warehouse (logistics) space.
 - Case Study & Presentation - on a prospective industrial investment.
 - Mini section on the institutional acquisition process.

- 4) Office sector (Class #6, #7).*
 - Same format – occupier perspective, Case Study & Presentation then evaluation.
 - This case is from the perspective of an “asset management team” presenting a hold/renovate/sell recommendation for an office building to “investment committee.”
 - Mini section on the institutional asset management process.

- 5) Retail sector (Class #8, #9). *
 - Same format.
 - Case Study with “deal team” and “lending team” presenting a prospective retail building acquisition to “investment committee.” The added complexity here is valuing the debt vs. equity positions in the capital stack.
 - Mini session on the institutional lending / borrowing process.

- 6) Apartment sector (Class #10 #11). *
 - Same format.
 - In this case the “deal team” presents a prospective apartment building development to “investment committee.” The complexity here is that the property does not exist so one must forecast both the cost to construct the building and the expected cash flows upon completion.
 - Mini session on the development process and development finance.

- 7) Wrap-Up and Portfolio Management Topics (Class #12).
 - Quiz first hour covering “minimum learning standards” (10%).

Case Study & Presentation format. We will form teams -- the number of teams and students per team a function of the class size – that will participate in the Case Study & Presentations. The goal is to have each student participate in 2 presentations – once as a member of a “deal team” making the presentation, and once as a member of the “investment committee” receiving and evaluating that presentation. Your presentation grade represents 20% of the total class grade. The investment committee evaluation represents 10% of the total class grade. These grades will incorporate peer evaluations. When you are not presenting, you will be assigned the case for a more abbreviated written report, with the evaluation of each such report representing 10% of your grade. For these written submissions you may work independently but group work is encouraged.

*Denotes Guest Lecturer invited. Guest lecturers who are industry practitioners and experts on a particular topic or property type will co-teach one of the classes and participate as an investment committee member for the case presentation as their schedule permits. The order of property type cases may change depending on the schedule of guest lecturers.

NYU Stern Grading Policies

At NYU Stern we seek to teach challenging courses that allow students to demonstrate differential mastery of the subject matter. Assigning grades that reward excellence and reflect differences in performance is important to ensure the integrity of our curriculum.

The process of assigning grades is intended to be one of unbiased evaluation. This means that students are encouraged to respect the integrity and authority of the professor’s grading system and discouraged

from pursuing arbitrary challenges to it. If a student feels that an inadvertent error has been made in the grading of an individual assignment or in assessing an overall course grade, a request to have that grade re-evaluated may be submitted. Students should submit such requests in writing to me within 7 days of receiving the grade, including a brief written statement of why he or she believes that an error in grading has been made.

Course Grades

Pursuant to the Course Outline above, grades are based on the following evaluations with this weighting:

- 20% weighting of grade on presented case as “deal team”
- 10% on presented case as “investment committee”
- 10% for each of 3 independent written cases = 30%
- 10% “real estate fundamentals” quiz
- 10% “real estate research” quiz
- 10% “minimum standards” final quiz
- 10% class participation

Readings / materials / cases:

To be posted on NYU Classes prior to first class.

Classroom Civility

Your behavior should respect your classmates desire to learn. Each lecture begins and ends exactly on time. I understand your busy schedules, but try not to come late. Because of the classroom layout, it is disruptive no matter how quiet you are. If you must miss a class or must come late, please let me know by email beforehand.

Laptop, tablet, and smartphone use is not allowed during class. While the use of such devices has advantages in the classroom, they also have the potential to disrupt your learning experience as well as that of your neighbors. Please turn them off before entering class.

Please do not engage in side conversations during the lecture. Repeated occurrence of such disruptions will be reflected in the final grade.

Honor Code

You are responsible for maintaining Stern's Honor Code which mandates zero tolerance for cheating and plagiarism. Violations of the honor code will be prosecuted with a minimum penalty of failure for the course, as required by code of conduct rules. If you become aware of any violations of the honor code you must take whatever steps are necessary to stop the violators. You must include a signed statement at the top of each problem set and exam, indicating that you adhere to the honor code. The statement is: *“I pledge my honor that I have not violated the Stern Honor Code in the completion of this exam/problem set.”* It is in your best interest that the market place knows that Stern takes honesty seriously; it adds to the value of your degree.

Academic Integrity

Integrity is critical to the learning process and to all that we do here at NYU Stern. All students are expected to abide by the NYU Stern Student Code of Conduct. A student’s responsibilities include, but are not limited to:

- A duty to acknowledge the work and efforts of others when submitting work as one's own. Ideas, data, direct quotations, paraphrasing, creative expression, or any other incorporation of the work of others must be clearly referenced.
- A duty to exercise the utmost integrity when preparing for and completing examinations, including an obligation to report any observed violations.

All students must follow the **Stern MBA Code of Conduct** (http://w4.stern.nyu.edu/scorp/committee.cfm?doc_id=4797).

Students with Disabilities

Students whose class performance may be affected due to a disability should notify me early in the semester so that arrangements can be made, in consultation with the Henry and Lucy Moses Center for Students with Disabilities, to accommodate their needs. Please see www.nyu.edu/csd for more information.

Information about the MBA Real Estate Specialization

The Real Estate Specialization provides rigorous training in (i) the economics of real estate development and investment, the financing of such projects, leasing, and appraisal of buildings, (ii) the pricing/valuation and trading of financial instruments with real estate as the underlying, such Real Estate Investment Trusts (REITS), residential and commercial mortgage-backed securities (MBS), and related derivative and structured finance products such as collateralized debt obligations (CDOs), credit default swaps (CDS), and index products (CDX, ABX, etc.), (iii) the workings of real estate primary and secondary markets, including the various participants in these markets, their roles, and (iv) the legal, taxation, and regulatory environment. Elective courses can be chosen to emphasize the commercial real estate development process or the investment strategies in real estate capital markets. With an appropriate choice of elective courses, this track provides in-depth preparation for careers in real estate development, real estate brokerage, real estate project investment for private equity firms, family offices, sovereign wealth funds, and careers in real estate finance in the fixed income or equity desks of investment banks (research, sales & trading), hedge funds, and sovereign wealth funds.

Course List

At least 6 credits must be taken (and all 9 credits can be taken) from the following list of Stern courses:

BSPA-GB.2300 Real Estate Transactions
 ECON-GB.3375 Urban Systems
 ECON-GB.3182 Law & Economics of Municipal Governance
 FINC-GB.2329 Real Estate Primary Markets
 FINC-GB.2339 Real Estate Capital Markets
 FINC-GB.2341 Real Estate Investment Strategies
 OPMG-GB.2312 Operations in Panama
 OPMG-GB.2360 Real Estate Development and Entrepreneurship
 OPMG-GB.2313 Operations in Entertainment: Las Vegas (with approved Real Estate project)
 OPMG-GB.2312 Operations in Panama (with approved Real Estate project)

Up to 3 credits may be taken from the list of pre-approved non-Stern courses which can be found at: <http://www.stern.nyu.edu/AcademicAffairs/Specializations/RealEstate/index.htm>

*In order for you to have OPMG-GB.2313 Operations in Entertainment: Las Vegas count towards the Real Estate Specialization, you must have your professor approve a real estate project and complete [this form](#). Upon approval by the professor, the form must then be submitted to the Office of Records & Registration.

For additional recommendations on how to gain expertise in the area of Real Estate, please visit:
<http://www.stern.nyu.edu/crefr>