

CRP 6611 Principles of Real Estate Finance and Development

This purpose of this course is to enable students to:

- 1) Understand both the “big picture” and the more detailed mechanics of real estate financial markets, including the roles of developers, investors, lenders, tenants, owners, and the public sector.
- 2) Analyze real estate-based development proposals and projects for feasibility, credit-worthiness, and long-term viability. Real estate financial analysis is a critical skill for those involved, either directly or indirectly, in the land and project development process.
- 3) Appropriately utilize government and third-sector programs in real estate finance projects. To do this, it is important to understand both the theory and mechanics of public and nonprofit real estate finance programs and policies.

Grading for the course will be based on the following weights of student responsibilities:

Individual Class Attendance and Participation:	15%
Six Homework Assignments (cumulative)	35%
Midterm 1:	20%
Midterm 2:	10%
Group Financial Analysis – Report and Presentation	20%

Notwithstanding these percentages, if any of the above items is not completed, or your effort on it is deemed severely lacking, then that item may affect your overall grade in the course to a greater extent than is represented by the percentages above. More than two or three absences during the semester—especially if not excused—will disproportionately and negatively affect your grade.

Homework exercises will be given graded primarily for effort and completeness. Each assignment will be graded from 0 to 5, 6, or 7, depending on the total points allotted to the exercise. These grades will then be aggregated at the end of the semester to calculate the “homework assignment” portion of the course grade. For late homework, I will deduct points as follows: less than 24 hours = 2-3 points deducted; 24-48 hours = 3-4 points deducted; more than 48 hours late = zero credit for homework. Homework assignments must be done *individually*. Group work is not permitted on the homework exercises.

The group project is explained further in a separate document. Each group will be given a separate case study real estate finance problem for which they will be asked to prepare a written document, including financial calculations in spreadsheet format, as well as a presentation (using PowerPoint or similar) to the class summarizing their analysis. Your individual grades on the group project will depend on my assessment of the overall project, as well as my assessment of your contribution to the group. The latter will be based, in part, on from peer evaluation feedback that I receive from other members of your group. Reports that are turned in late will be significantly downgraded as follows: less than 24 hours = 1 letter grade; 24-48 hours = 2 letter grades; more than 48 hours = failing grade for report.

If you have any special needs because of a learning disability or any other kind of disability, please feel free to discuss this with me. I will do my best to accommodate you.

Final grades will be granted based on how the weighted average (shown above) falls according to the following: 90-100%=A; 80-89.9%=B; 70-79.9%=C; 60-69.9%=D; 0-59.9%=F.

Academic dishonesty – including cheating and plagiarism -- is a serious offense requiring disciplinary measures. You should be familiar with Georgia Tech Academic Honor Code and its interpretation in the CRP Student Handbook.

This course assumes basic facility with spreadsheet software—such as Excel. We will use Excel extensively, especially its financial functions, including present value of an annuity, internal rate of return, loan payment calculations, etc.* All assignments that are expected to be done on a spreadsheet will be in homework assignments or the final project. The midterm exam will not require use of a computer, but will require access to a simple, nonfinancial calculator.

The use of a financial calculator (e.g., HP 12-C) is *not* required and is not incorporated into the teaching of the course. If you wish to use a financial calculator, that is fine as long as you can show all work that is requested in any assignment or exam. (The Brueggeman and Fisher text frequently provides supplemental instructions for the use of financial calculators in various calculations. These directions relate quite directly to solving problems via Excel financial functions as well.) If, for example, you are asked to calculate an internal rate of return (IRR) and show how you derive it for a problem, it will not be sufficient to simply enter parameters into a financial calculator and provide the IRR.

The only written assignment (other than problem solving on homework and in the midterm) is intended to be a professional financial analysis. You should utilize footnotes for references and notes where appropriate. Footnotes should follow a consistent and complete format, which reveals the authors, titles, sources, dates and pages of the resource(s). Web site citations should include retrieval dates and full URLs *in addition* to all of this other information.

There are three key texts which you are required to purchase. They are:

William B. Brueggeman and Jeffrey D. Fisher, *Real Estate Finance and Investments*, 12th Edition, New York: McGraw Hill, 2005. (Referred to as B&F)

National Development Council, *ED 202 Real Estate Finance Textbook*, Version 2004. Edgewood, KY: National Development Council. (Referred to as NDC ED202 REF)

National Development Council, *HD 420 Rental Housing Development Finance Textbook*, Version February 2005. Edgewood, KY: National Development Council. (Referred to as NDC HD 420 RHDF)

Other readings are available on e-reserve, on the web, or via library internet sources. E-reserve readings are marked with an asterisk.

*If you are *not* familiar with Excel, you may need to spend a good deal of extra time in learning the software in the first couple of weeks of the course. (Second year students are certainly expected to be facile with Excel.) There are a number of online tutorials that might be helpful. Some of these can be found on the following websites:

<http://www.usd.edu/trio/tut/excel/>

<http://www.baycongroup.com/e10.htm>

http://www.internet4classrooms.com/on-line_excel.htm

<http://office.microsoft.com/en-us/assistance/CH062527951033.aspx>

Week 1

About the Course

An Overview of the Development Process and the Role of Planners in Development Finance

*M. Miles, G. Berens and M. Weiss, *Real Estate Development: Principles and Process*, Third Edition. Washington, D.C.: Urban Land Institute, 2000, pp. 5-14.

NDC ED202 REF, Introduction and Chapter 1.

B&F, Chapter 11, pp. 292-298 (including Exhibit 11-2).

*E. Hill and N. Shelley, "An Overview of Economic Development Finance," in R. Bingham, E. Hill and S. White, *Financing Economic Development: An Institutional Response*. Newbury Park, CA: Sage Publications, 1990, pp. 13-28.

Week 2

Building Blocks for Real Estate Financial Analysis

Mortgage/Real Estate Finance Mechanics, Legalities

Future and Present Values, Net Present Value, and Internal Rates of Return

B&F, Chapters 1 (skim), 2

B&F, Chapter 3; NDC ED202 REF pp. 93-116

Week 3

Homework # 1

Fixed- and Adjustable-Rate Loans

B&F, Chapters 4 (pp. 70-94) & 5 (pp. 110-114; 117-121)

Week 4

Homework #2 Due September 12

Leases, Effective Rents

Sources and Uses of Funds, the Pro Forma Income/Expense Schedule, and Ratio Analysis

B&F Chapters 9 (pp. 240-254), 11 (pp. 295-308), 16 (pp. 429-437; skim pp. 438-446; 447-455);

NDC ED202 REF Chapters 2 and 3

Week 5

Homework #3

Valuation

B&F Chapter 10, pp. 255-272; 279-287; NDC ED202 REF Chapter 4

Week 6

Homework #4

Taxation and Leverage

B&F, Chapter 11 (pp. 308-317); NDC ED 202 REF Chapter 5, pp. 68-72

B&F Chapters 12 (pp. 320-332) and 16 (pp. 456-461)

NDC ED202 REF Chapters 5 (pp. 68-72), 6 (pp. 78-93) and 7

Week 7

Low-Income Housing and Historic Rehabilitation Tax Credits

NDC ED 202 REF Chapter 5, pp. 72-77; NDC HD 420 RHDF Chapters 5 & 6

The Borrowing-Lending Process; Structuring Loans

B&F, Chapter 16 (pp. 438-446), Chapter 12 (pp. 332-349)

*F. DeGiovanni, R. Ream, L. Phare, and A. Schwartz, *Bank-Ability: A Practical Guide to Real Estate Financing for Nonprofit Developers*, New York: Community Development Research Center, New School University, 1996, pp. 21-69.

Week 8 MIDTERM EXAM

Week 9 **Guest Speaker: Housing/Community Development Lender: David Pinson, GMAC**

Week 10

Homework #5

Syndications, Limited Partnerships, and REITs

NDC ED 202 REF Chapter 8 (read 126-158; skim 158-164), Appendix B

B&F, Chapter 18 (read), 21(skim)

More Federal, State and Local Affordable Housing Finance Tools and Environment

NDC HD 420 RHDF Chapters 1-4 (skim/review)

Dillon, M. "Financing Multifamily Rental Housing Using Tax-Exempt Bonds: An Introduction."

The Enterprise Foundation, 2001. Retrieved on May 4, 2005 at

www.enterprise.org/pubnews/bb/cc6974.asp

Fireison, S. "Financing Affordable Housing: Section 202 Basics." Volume 21, number 2 (August 2004): 16 – 23. Available on Proquest ABI Complete.

Read (including links) web pages:

Federal Home Loan Bank of Atlanta

http://www.fhlbatl.com/fhlb_content.cfm?lev1=5cis&lev2=aahp&lev3=1about (links under *Affordable Housing Programs*)

State of Georgia programs

<http://www.dca.state.ga.us/housing/HousingDevelopment/index.asp#PROG> (links under *Programs*)

Atlanta Development Authority

<http://www.atlantada.com/buildDev/residentialPrograms.jsp>

Progressive Redevelopment, Inc.

<http://www.prihousing.org>

Guest Speakers:

Lynn Brazen, Federal Home Loan Bank of Atlanta

Richelle Patton, Vice President, Progressive Redevelopment, Inc.

Week 11

Homeownership Financing and Secondary Markets

B&F Chapters 7 & 8 and 19 (read pp. 516-522; 522-541 is optional)

M. Lea, "Innovation and the Cost of Mortgage Credit," *Housing Policy Debate* 7 (1996): 147 – 174. Retrieved on June 28, 2005 at

http://www.fanniemae.foundation.org/programs/hpd/pdf/hpd_0701_lea.pdf

Fair Isaac, "Understanding Your Credit Score." Retrieved on June 26, 2005 at

http://www.myfico.com/Downloads/Files/myFICO_uycs%20booklet.pdf

M. Berry, ed., "Perspectives on Credit Scoring and Fair Lending: A Five Part Article Series, Part 1," *Communities and Banking* 29 (Spring 2000), Federal Reserve Bank of Boston. Retrieved on June 26, 2005 at <http://www.bos.frb.org/commdev/c&b/2000/spring00.pdf>

Week 12

Affordable Mortgage Lending Programs, the Foreclosure Process, and Alternative Ownership Structures

Excerpts from D. Listokin, E. Wyly, L. Keating, K. Rengert, and B. Listokin, *Making New Mortgage Markets: Case Studies of Institutions, Home Buyers and Communities*, Fannie Mae Foundation, 2000, pp. 1-78; 225-237. Retrieved on May 5, 2005 at

www.fanniemae.foundation.org/programs/pdf/rep_newmortmkt.pdf.

D. Leonhardt and M. Rich, "The Trillion-Dollar Bet: Homeowners Take Risks in a Bid for Lower Mortgage Payments," *New York Times*, June 16, 2005. Available on Lexis-Nexis Academic.

J.M. Collins and R. Nawrocki, "Single Family Mortgage Default Processes: A Discussion of the Value of Interventions by Nonprofit Programs." Ithaca, NY: PolicyLab. Retrieved on August 3, 2005 at http://www.policylabconsulting.com/documents/FMF_2005614%20-%20Collins_Paper5_ValueofForeclosurePrograms_6_05.pdf.

Enterprise Foundation, "Alternative Financing Models—Hybrids of Homeownership." Retrieved May 5, 2005 at

www.enterprisefoundation.org/resource/dss/singlefam/sf&24&in&ncpsff2.htm

Guest Speaker: Archibald Hill, Fannie Mae

Week 13

Homework #6

Specialized Real Estate Development Finance Tools: TIFs/TADs, New Markets Tax Credits, and Time-Tranches

*R. Weber, "Tax Incremental Financing in Theory and Practice," Chapter 3 in S. White, R. Bingham, and E. Hill, eds., *Financing Economic Development in the 21st Century*. New York: M.E. Sharpe, 2003, pp. 53-69.

D. Selby and C. Hunter, "Tax Increment Financing: How Public-Private Partnerships are Financing Urban Redevelopment," *Real Estate Finance*, Volume 21, number 2 (August 2004): 3-7. Available on Proquest ABI Complete.

P. J. Armistead, "New Markets Tax Credits: Issues and Opportunities" New York: Pratt Institute Center for Community and Environmental Development, April 2005. Retrieved on June 5, 2005 at <http://www.picced.org/pubs/nmtc-report.pdf>. Skim examples 1-8 in Appendix B. Read example 9 more closely.

C. B. Leinberger, "Financing Progressive Development," Washington, DC: Brookings Institution Center on Metropolitan Policy, May 2001. Retrieved on July 13, 2005 at <http://www.brookings.edu/es/urban/capitalxchange/leinberger.pdf>

Week 14

Alternative Providers of Community and Economic Development Finance

CDFI Data Project, "Providing Capital, Building Communities, Creating Impact" Third Edition, Fiscal Year 2003. Philadelphia: National Community Capital Association, 2004. Retrieved on July 12, 2005 at <http://www.communitycapital.org/customer/home.php>. Must download from online store (publication is free).

L. Benjamin, J. Sass Rubin, S. Zielenbach, "Community Development Financial Institutions: Current Issues and Future Prospects, *Journal of Urban Affairs* 26, number 2 (August, 2004): 177-195. Available on EBSCO Host Academic Search Premier.

K. Nieman and M. Bush, "Doing Well While Doing Good: The Growth of Community Development Banking, 1992-2001." Chicago: Woodstock Institute, September 18, 2002. Retrieved on July 8, 2005 at <http://woodstockinst.org/document/alert18.pdf>.

M. Pinsky, "Taking Stock: CDFIs Look Ahead After 25 Years of Community Development Finance." Washington, DC: Brookings Institution Center on Metropolitan Policy, December 2001. Retrieved on July 10, 2005 at

<http://www.brook.edu/dybdocroot/es/urban/capitalxchange/pinsky.pdf>

Guest Speaker: K.C. George, Community Redevelopment Loan and Investment Fund

Week 15

The Wise Use of Development Subsidy, Community Benefits Agreements, and Accountability

J. Gross, G. Leroy, and M. Janis-Aparacio, *Community Benefits Agreements: Making Development Projects Accountable*. Washington, DC: Good Jobs First and the California Partnership for Working Families. Retrieved on July 15, 2005 at <http://www.goodjobsfirst.org/pdf/cba2005final.pdf>, pp. 1-79, and 94-116.

R. Weber, "Do Better Contracts Make Better Economic Development Incentives?" *Journal of the American Planning Association* 68 (2002), 1: 43-55. Available on Proquest ABI Complete.

Week 16

Group Presentations: Groups 1 and 2

Groups 3 and 4

Groups 5 and 6

Final Group Project Report Due for All Groups