

REAL ESTATE FINANCE II: CASE STUDIES

FALL 2018 GROUP Y

Section 2 Finance for Development Projects Instructor:

Dr. Patrice Derrington

Email: pad2160@columbia.edu

Financial Analysis Tutorial:

Additionally, all students are to attend the Financial Analysis Tutorials that relate to the Section lectures. This meets alternating weeks with Professor Johnny Din on Thursdays from 9-10:30 am in 113 Avery.

Class Locations:

Group Y Lecture: 200 Fayerweather

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Course Overview:

In this course, students will study the financial aspects of real estate development and construction activities and learn the analytical methods used by real estate developers, lenders and investors in assessing these projects. The goal is for students to further their understanding of the financial analysis of real estate, with respect to both the debt and the equity, with specific attention to the process of initiating a development project, assessing its feasibility, determining the full costs and arranging the funding for that project. The range of development covered includes ground-up, major rehab, and value-add projects. Students are encouraged to apply these analytical capabilities in making critical comparisons of various real estate development proposals and in proposing alternative structures for funding a selected project. Students will be expected to be able to build a development funding DCF proforma upon completion of this section.

Course Structure:

Technical Content: During the course, students will learn the technical concepts and analytical methods utilized in determining the financial feasibility, the debt funding and equity returns of real estate investments and development projects. Competence with the applicable financial modeling tools will be gained; and the details of decision-making in the various stages of the investment analysis process will be covered.

Application:

Most critical to the student's learning in this course is the application of the learnt concepts and methods of finance to real life real estate development and investment situations. This application will be achieved by the student's participation in the following activities:

1. **Attendance and Participation in Class:** Concepts and analytical methods will be learned by reasoning through the real estate investment and development processes. Students are **expected to engage** in these investigative sessions with the professor by asking questions, responding to queries, and challenging notions.
2. **Quizzes, Tests and Homework Assignments of specific problems** will be undertaken **individually** by each student throughout the semester in order to ascertain that specific student's progress in understanding and utilizing the concepts and analytical methods.
3. **Financial Analysis Modeling Proficiency:**
 1. **Be able to do Back of the Envelope and other short-cut Feasibility Evaluations.**
 2. **Be capable of building a comprehensive development and construction financial model.**

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Strongly Suggested Textbooks:

Professional Real Estate Development 3rd Edition, Richard B. Peiser & David Hamilton, 2012 Urban Land Institute.

Foundations of Real Estate Financial Modelling (sic) by Roger Staiger, 2015 Routledge.

Recommended Reference Textbooks:

Real Estate Finance and Investments, 14th Edition, William B. Brueggeman, Ph.D and Jeffrey D. Fisher, Ph.D.

Commercial Real Estate Analysis & Investments, 3rd edition, Geltner, Miller, Clayton, Eichholtz, 2013, Cengage Learning.

Recommended Readings:

- *Wall Street Journal* (in particular, Wednesday's Real Property section)
- *NY Times* (Sunday's Real Estate Section)
- *Crain's NY Business*
- *The Real Deal*

Course Requirements:

Students will be expected to attend and participate in class discussions as these will factor in to the final grade.

- **Attendance:** Class attendance will be reflected in the final grade. An email notifying the professor of your expected absence is recommended. If a class is missed, the student is responsible for reviewing the posted class notes and make arrangements to meet with the professor to ensure that the lessons of the missed class are understood.
- **Class Participation:** Students are required to participate in all class discussions. Active participation will be an essential component of your grade in the course.
- **Class Preparedness:** Students are required to read all assigned readings for each class, together with any supplemental presentations, case studies and homework assignments. Readings from the required textbook (or e-book) and recommended readings are provided in the Session Topics listing below.

SESSIO NB Final Grades:

Grades will be weighted and assigned as follows:

- Attendance and class participation in the discussion of technical material, quizzes, and case studies: 5%.
- Excel Skills Workshop Projects: critical for course completion
- Homework Quizzes: 10%
- SESSION B EXAM: 35%

Electronic Resources:

CourseWorks/Canvas @ Columbia will be used for:

- Posting of the instructor's powerpoint slides for the class lectures, post-class.
- Posting of Homework Quizzes, Midterm and Final Exams.
- Student submissions of completed Homework Quizzes and Final Exams.
- Announcements, communications and alerts relevant to the course.

Student Laptops:

- Downloading instructor's class slides after class.
- Downloading and submitting Homework Quizzes, Midterm and Final Exams.
- NOT ALLOWED IN LECTURE CLASSES (only Excel Tutorials).
- **Sessions Topics (Subject to Change):**

<u>Session:</u>	<u>Peiser</u>	<u>Brueggeman</u>	<u>Geltner</u>	<u>Topics</u>
<u>Date</u>	<u>Chapters</u>	<u>Chapters</u>	<u>Chapters</u>	

SECTION 1

Class 1:				Course Overview
Oct 29	1	10,16	2,6, 28	Introduction to Real Estate Development Finance: Financial Feasibility of Development Projects: BOE and SFFA analyses
	1,			Development Funding Overview:
Class 2:	3		14,15.3	Construction loans, lender's underwriting, estimating interest reserve.
Oct 30	4	16	28.2,3 29.1	Intro to homework Case Study: Denver Apts HW 1 given; due Nov 2
				Building the Development Proforma:
Class 3:	2			Land funding, Construction costs.
Nov 9	(pp66-71), 4	17 14	27.1	Construction Loan Sizing: Operating Proforma Valuation Application for construction loans & takeout upon completion. HW2 given, due Tues Nov 13
				Development Loans:
Class 4:				Construction loan drawdowns. Actual Interest Reserves. Total loan amount. Effective interest cost
Nov 12	5		18.2	 HW 3 given, due Nov 16 HW4 given, due Nov 27

Class 5:

Dec 3

**COMPLETE DEVELOPMENT
DCF PROFORMA**

Equity Returns

Class 6:

Dec 4

REVIEW

Dec 10

SESSION B EXAM