URBP 206 – MARKET ANALYSIS, APPRAISAL, AND FINANCE OF REAL ESTATE DEVELOPMENT

Fall 2017

Instructor: Nelson Koen
Office location: TBD
Telephone: (650) 787-8486
Email: nelsonkoen@gmail.com
Office hours: Mondays from 3:30 to 4:30 pm
Class days/time: Mondays from 4:30 to 7:00 pm
Classroom: TBD
Class website: TBD
Prerequisites: None. Recommended prior knowledge of spreadsheets.
Units: 3

Course Catalog Description
Students will learn about real estate capital markets and the mix of the necessary financing sources required of developments. Students will evaluate criteria used by developers, real estate lenders and capital providers looking to minimize risk and maximize returns on real estate investments.

Course Description and Course Learning Objectives
This course focuses on the financial dimensions of the real estate development process from conception, feasibility analysis, due diligence, entitlements, planning, financing, market analysis, contract negotiation, construction, marketing, asset management and disposition. We will study market dynamics, capital finance, joint venture formation, project management and the entitlement process.

Upon successful completion of the course, students will be able to meet these learning objectives (CLOs):

San José State University
Urban and Regional Planning Department
1. Ability to address the major components of the Real Estate development process including:

   a) Determine project viability based on market conditions, development costs, and entitlement feasibility
   b) Conceptualize a site layout for a project
   c) Formulate a program of pre-development tasks and budgets
   d) Determine price and terms for land acquisition.
   e) Conduct due diligence on site acquisition
   f) Understand how the entitlement process works
   g) Understanding the Roles of the Development Team
   h) Understanding of Risks and Challenges in Real Estate Development
   i) Disposition

2. Ability to appraise real estate assets using the following three methods:

   a) income capitalization approach
   b) market or sales comparison approach
   c) cost or replacement approach

3. Ability to structure the capital financing for a real estate development project, including the terms for debt and equity participation, addressing these financing parameters:

   a) Current capital market conditions and underwriting criteria for debt and equity
   b) Basics of evaluating and presenting project viability to attract capital to a project
   c) Identify financing sources for each components of the development process
   d) Crafting a joint venture with alternative investment scenarios
   e) Structuring the waterfall distribution of return on equity among investors and the operating partner

**Course Format**

The class will combine Lectures, Weekly Readings, Weekly Homework, Three Case Studies, a Group Project and Guest Speakers.

For some sessions and class exercises it will be required that the students bring their laptops to the class.

**Required Course Texts**

**Course Requirements and Assignments**

Your grade for the course will be based on the following assignments and graded activities:

<table>
<thead>
<tr>
<th>Assignments and Graded Activities</th>
<th>Due Date(s)</th>
<th>Percent of Course Grade</th>
<th>Course Learning Objectives Covered</th>
</tr>
</thead>
<tbody>
<tr>
<td>Class Participation and in-class exercises</td>
<td>weekly</td>
<td>15%</td>
<td>1, 2 and 3</td>
</tr>
<tr>
<td>Homework and Problem Sets. (from the textbook Real Estate Finance and Investments)</td>
<td>weekly</td>
<td>25%</td>
<td>2 and 3</td>
</tr>
<tr>
<td>Case Studies (case studies will be given by the instructor). Individual.</td>
<td>Per class schedule below</td>
<td>20%</td>
<td>1 and 2</td>
</tr>
<tr>
<td>Group Project (feasibility analysis of an actual piece of land currently for sale in the Bay Area)</td>
<td>Per class schedule below</td>
<td>40%</td>
<td>1, 2 and 3</td>
</tr>
</tbody>
</table>

**Class Participation and in-class exercises:**

Students are expected to complete assigned class preparation prior to the classes and to actively participate. Students are expected to contribute to class conversation in an intelligent manner, and comments can be positive or negative factors in participation. On some sessions students will be given an exercise/problem to be solved during class which will be based on the required reading due prior to the class.

**Homework and Problem Sets:**

There will be required readings, homework and problem sets due every Friday.

Homework will be to emphasize the concepts learned during the week and practice the financial analysis tools in real estate.

Problems will be from the required textbook Real Estate Finance and Investments. Homework will be submitted in groups of 2 students (groups assigned by the instructor)
Case Studies:
There will be 3 case studies that the students will need to read, and prepare a written paper answering the case questions. This assignment will be individual. The deadline for each case study is shown below at the class schedule.

Group Project:

One of the main deliverables of the class will be a Group Project that will be given on September 18th. (3-4 students per group - assigned by the instructor)

The Group Project will be an opportunity to apply all the concepts learned in the class to the development of a real piece of land that is currently for sale on the market in the Bay Area. Students will need to meet with City Officials, Real Estate Broker and make a proposal for the development based on the current zoning. Students will need to prepare preliminary design sketches, a market analysis, and a financial pro-forma of the project detailing all development costs, future revenue and expected profit. Each group will submit an Excel Model with the Project Pro-Forma; a three to five page investment memorandum detailing their investment proposal (including the constraints and risks of the investment) and a 20-25 minute presentation to the entire class. Each group will have a mentor that will meet with them once during the Semester and give guidance. The Instructor (Nelson Koen) will also meet with each group at least twice during the Semester. The deadlines and deliverables for the Group Project are shown at the class schedule below.

Grading Information
The course letter grade will be determined by the total accumulated points a student is awarded from the elements shown in the table above. Final letter grades will result from total points received by each student based on the following grading scheme: A+ (96 and above); A (93 to 95); A- (90 to 92); B+ (87 to 89); B (84 to 86); B- (81 to 83); C+ (78 to 80); C (75 to 77); C- (72 to 74); D+ (69 to 71); D (66 to 68); D- (63 to 65); F (below 63).

Other Grading and Assignment Issues
No late homework will be accepted and there is no makeup homework.

Re-grading Policy: Questions and concerns regarding grading (Homework, Case Study), must be submitted in writing along with the entire assignment to the Instructor. Any submission of the assignment for re-grading will result in the entire assignment being re-graded. This means that your score after re-grading can be above or below your original score. Re-grading requests will only be accepted within one week of the date of return of the graded item in question.
Course Workload
Success in this course is based on the expectation that students will spend, for each unit of credit, a minimum of forty-five hours over the length of the course (normally 3 hours per unit per week with 1 of the hours used for lecture) for instruction or preparation/studying or course related activities including but not limited to internships, labs, clinical practica. Other course structures will have equivalent workload expectations as described in the syllabus.

Classroom Protocol
It is expected that students will arrive to class on time. No use of cellphones or laptops is allowed during class (laptops are NOT allowed to be used to take notes). It is recommended that the students bring a notebook or note pad to take class notes. Power point slides used during class by the instructor will be available to the students after each class.

Laptops can only be used during class to solve specific in-class exercises given by the instructor. The instructor will specifically announce during class when laptops can be used.

University Policies
Per University Policy S16-9, university-wide policy information relevant to all courses, such as academic integrity, accommodations, etc. will be available on Office of Graduate and Undergraduate Programs’ Syllabus Information web page at http://www.sjsu.edu/gup/syllabusinfo/”

Plagiarism and Citing Sources Properly
Plagiarism is the use of someone else's language, images, data, or ideas without proper attribution. It is a very serious offense both in the university and in your professional work. In essence, plagiarism is both theft and lying: you have stolen someone else's ideas, and then lied by implying that they are your own.

Plagiarism will lead to grade penalties and a record filed with the Office of Student Conduct and Ethical Development. In severe cases, students may also fail the course or even be expelled from the university.

If you are unsure what constitutes plagiarism, it is your responsibility to make sure you clarify the issues before you hand in draft or final work.

Learning when to cite a source and when not to is an art, not a science. However, here are some common examples of plagiarism that you should be careful to avoid:

- Using a sentence (or even a part of a sentence) that someone else wrote without identifying the language as a quote by putting the text in quote marks and referencing the source.
• Paraphrasing somebody else’s theory or idea without referencing the source.
• Using a picture or table from a webpage or book without reference the source.
• Using data some other person or organization has collected without referencing the source.

The University of Indiana has developed a very helpful website with concrete examples about proper paraphrasing and quotation. See in particular the following pages:

• Overview of plagiarism at www.indiana.edu/~istd/overview.html
• Examples of plagiarism at www.indiana.edu/~istd/examples.html
• Plagiarism quiz at www.indiana.edu/~istd/test.html

If you still have questions, feel free to talk to me personally. There is nothing wrong with asking for help, whereas even unintentional plagiarism is a serious offense.

**Library Liaison**

The SJSU Library Liaison for the Urban and Regional Planning Department is Ms. Toby Matoush. If you have questions, you can contact her at toby.matoush@sjsu.edu or 408-808-2096.
## MARKET ANALYSIS, APPRAISAL, AND FINANCE OF REAL ESTATE DEVELOPMENT
### FALL 2017

#### COURSE SCHEDULE
Subject to Changes with Fair Notice

<table>
<thead>
<tr>
<th>Week</th>
<th>DATE</th>
<th>To Read BEFORE CLASS from: Real Estate Finance and Investments - 15th Edition</th>
<th>TOPIC</th>
<th>ASSIGNMENT DUE THE DAY BEFORE CLASSES AT NOON</th>
<th>Group Project TIMELINE</th>
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<tbody>
<tr>
<td>1</td>
<td>Aug. 28</td>
<td>Ch 1 (pages 1-9) Ch 2 (pages 16-37)</td>
<td>Introduction - Real Estate Development Process and Principles - Terminology and Common Indexes used in Real Estate</td>
<td>Read Chapters 1, 2 and 3 from the book: &quot;The Real Estate Game&quot;</td>
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<tr>
<td>2</td>
<td>Sept. 4</td>
<td>NO CLASS LABOR DAY</td>
<td></td>
<td>Read Chapters 4 thru 9 from the book: &quot;The Real Estate Game&quot;</td>
<td></td>
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<tr>
<td>3</td>
<td>Sept. 11</td>
<td>Ch 7 (pages 196-206) Ch 8 (pages 220-230)</td>
<td>Entitlements, Contract Negotiation - Pricing, Market Analysis - Analysis of Comparables</td>
<td>HOMEWORK # 1: Chapter 7 - Problem 3 Due Sept. 10 at noon</td>
<td>Teams Formed and Projects Assigned, Teams to do a Site Visit of their respective properties</td>
</tr>
<tr>
<td>4</td>
<td>Sept. 18</td>
<td>Ch 3 (pages 42-74)</td>
<td>Present Value, IRR Interest Formulas, Excel Functions</td>
<td>HOMEWORK # 2: Chapter 3 - Problems 10, 13 and 14 Due Sept. 17 at noon</td>
<td>Analysis of Zoning, possible uses and challenges and constraints. Understand the entitlement process for the property. Meet with City Planning Department</td>
</tr>
<tr>
<td>6</td>
<td>Oct. 2</td>
<td>Ch 4 (pages 77-107) Ch 6 (pages 118 162)</td>
<td>Mortgages, Mortgages Payments, Loan Balance, Refinance</td>
<td>HOMEWORK #4: Chapter 4 - Problems 2 and 8 Chapter 6 - Problem 3 Due Oct. 1 at noon</td>
<td>Meet with Mentor. Draft Design of possible options. Analyze pros and cons. Market study for comps.</td>
</tr>
<tr>
<td>7</td>
<td>Oct. 9</td>
<td>Ch 11 (pages 343 to 356) Ch 12 (pages 404-417;424)</td>
<td>Feasibility Analysis - Intro to Proforma Sensitivity and Risk Analysis - Residual Land Value</td>
<td>HOMEWORK # 5: Chapter 11 - Problem 1 Chapter 12 - Problem 3 Due Oct. 8 at noon</td>
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San José State University
Urban and Regional Planning Department
# URBP 206

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| 8    | Oct. 16 | Ch 16 (pages 517 to 535)  
Ch 17 (pages 554 to 564) | Financing Project Development and Land Development, REITs - Redevelopment Projects | HOMEWORK # 6:  
Chapter 16 Problem 1  
Chapter 17 - Problem 1  
Due Oct. 15 at noon | Use feedback from Mentor on design, assumptions, comparables, rents, sales price, etc. |
| 9    | Oct. 23 | Ch 18 (pages 583 to 598) | Joint Ventures and Partnerships - Property Management. MEET WITH NELSON | SUBMIT GROUP PROJECT PRELIMINARY MARKET STUDY AND DESIGN SKETCHES  
Due Oct 27 at noon | Complete the draft of the Proforma. Submit Preliminary Market Study and Design Sketches. |
| 10   | Oct. 30 | Ch 19 (pages 628-629; 632-637)  
Ch 20 (pages 649 651; 671-681) | GUEST SPEAKER | HOMEWORK # 7:  
Chapter 18 - Question 1;  
Problem 1  
Due Oct. 29 at noon | Work on Sensitivity Analysis and feedback from market study and design sketches |
| 11   | Nov. 6  | **AFFORDABLE HOUSING**  
Readings (to be provided by the Instructor) | GUEST SPEAKER | SUBMIT GROUP PROJECT PRELIMINARY PROFORMA  
Due Nov. 5 at noon | Refine and complete the Proforma. Submit Preliminary Proforma. |
| 12   | Nov. 13 | MEET WITH NELSON + WORK ON GROUP PROJECT | Case Study 1  
Due Nov. 12 at noon | Meet with Nelson to get feedback |
| 13   | Nov. 20 | GUEST SPEAKER | Case Study 2  
Due Nov. 19 at noon | Make adjustments per Nelson's Feedback |
| 14   | Nov. 27 | GUEST SPEAKER | Case Study 1  
Due Nov. 26 at noon | Start working on Executive Summary and Power Point presentation. |
| 15   | Dec. 4  | Ch 19 (pages 628 629; 632-637)  
Ch 20 (pages 649-651; 671-680) | Starting and Managing a Small Real Estate Fund | Submit updated Proforma with Sensitivity Analysis,  
Due Dec. 3 at noon. | Final adjustments. Submit updated Proforma with Sensitivity Analysis. |
| 16   | Dec. 11 | Group Project Presentations | | Submit Group Project Excel Model, Executive Summary and Power Point, Due Dec. 10 at noon | Submit Excel model, Executive Summary and Power Point. |
| 17   | Dec. 18 | Finals Week | | **Due Dec. 18 at 4:30pm** | Submit Updated Excel model and Executive Summary per feedback received. |