

**College of Business Administration
University of Texas at Austin**

**RE 378K
Real Estate Finance and Syndication
Fall 2004
Unique # 02985
Garrison 109, MW 3 – 5 pm**

Instructor: Lenore M. Sullivan
Office: CBA 6.432 N
Office Hours: M/W 1:30 – 2:45 pm or by appointment

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T.A. Joseph Cahoon
Office Hours: TBD

Course Prerequisites

Real Estate 358 – Introduction to Real Estate and Urban Land Development

Course Description

The course examines debt and equity financing for residential and commercial real estate properties. The objective of the course is to establish a solid foundation in the fundamentals of real property valuation and underwriting, as well as an understanding of the various debt and equity financing alternatives available and in use in the capital markets. The course will also examine lender and investor perspectives on risk and reward across property types.

The course begins with an overview of the legal aspects of real estate finance, followed by the application of financial mathematics to the calculation of payment streams, mortgage yields, outstanding loan balances, equity returns and other basic financial measurements. We will then turn to a discussion of financing issues specific to various types of real property, starting with mortgage underwriting and valuation of residential real estate. The course will then turn to the financing of existing, income producing commercial properties, including a review of valuation and appraisal methodologies and cash flow analysis across property types. We will examine income producing properties as investments, evaluating the components of risk and understanding the impact of taxation on equity returns. We will also review a variety of loan instruments, and various ownership vehicles such as joint ventures, limited partnerships and syndications, and discuss their application in structuring real estate investments. We will then take a brief look at the risks of new development from both the lender and investor/developer perspectives.

The final section of the course will focus on real estate capital markets, and will include a brief review of the secondary mortgage markets and REITs. We will complete the course with a discussion of real estate investment in the context of an investment portfolio, with a presentation by a manager of an institutional real estate investment portfolio.

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Required Text

Bruggeman and Fisher, *Real Estate Finance and Investments*, 12th Edition

Course Requirements and Grading

Grades will be based on the student's performance in homework assignments, examinations, and in class. Class participation is important!!! Course grades will be based on the following:

Homework, Case Analysis and Class Participation	25%
Mid-Term Examinations (2)	40%
Final Examination	35%

There will be five homework assignments given during the semester. These assignments will utilize the analytical tools covered in the text and in class lectures and give students the opportunity to apply them to specific valuation problems and financing situations. These assignments and due dates can be found in the *Course Outline* below.

Two (2) mid-term exams will be given during the semester. The first exam will cover material discussed up through the previous class session; the second exam will cover material since the date of the first exam. Scheduled dates for the exams are included in the *Course Outline* below; exam reviews will be held prior to each exam. The final examination will be comprehensive and will be given during the scheduled period during Finals week. No makeup exams will be given without the prior written consent of the instructor, and only in special circumstances and with proper documentation.

Attendance will not be taken, but students will be held responsible for everything covered or assigned in class. In addition to reviewing the material assigned in the textbook and any outside materials introduced during the course of the semester, class time will be devoted to industry situations and conditions that will place the material in context and enhance students' understanding and appreciation of the material. Your general conduct in class, including attendance, promptness and participation, will be a factor in your final grade. Notebook computers are permitted in class only for the purpose of note taking and reviewing homework assignments.

Note: A financial calculator capable of performing present value and rate of return functions with unequal cash flows is required.

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Policy on Scholastic Dishonesty

Students who violate University rules on scholastic dishonesty are subject to disciplinary penalties, including the possibility of failure in the course and/or dismissal from the University. Since dishonesty harms the individual, all students, and the integrity of the University, policies on scholastic dishonesty will be strictly enforced. You should refer to the Student Judicial Services website at <http://www.utexas.edu/depts/dos/> or the General Information Catalogue to access the official University policies and procedures on scholastic dishonesty as well as further elaboration on what constitutes scholastic dishonesty.

Student with Disabilities

The University of Texas at Austin provides upon request appropriate academic accommodations for qualified students with disabilities. For more information, contact the Office of the Dean of Students at 471-6259.

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Course Outline

I. Legal Instruments and Other Considerations in Real Estate Finance

Wed., Aug. 25 Course Introduction and Administration
 Overview of Real Estate Finance and Investments
 Legal Issues in Real Estate Finance

Mon., Aug. 29 Legal Issues in Real Estate Finance (cont.)

Reading Assignment: Text, Chapters 1-2

II. Interest Factors, Mortgage Pricing and Valuation

Wed., Sept. 1 Introduction to Interest Rates
 Present and Future Value Mathematics

Reading Assignment: Text, Chapter 3

Homework Assignment # 1 - Due Wed., Sept. 8:
Chapter 3 (pages 68-69), Problems #1, #3, #9, #10, #12, #14,
#15, #16

Mon., Sept. 6 LABOR DAY – No Class

Wed., Sept. 8 &
Mon., Sept. 13 Fixed and Variable Rate Mortgage Pricing and Valuation

Reading Assignment: Text, Chapters 4-5

Homework Assignment # 2 - Due Wed., Sept. 15:
Chapter 4 (pages 104-107), Problems #2, #3, #6, #10, #13
Chapter 5 (pages 137-139), Problems #2, #3, #4 and #5

III. Residential Property Underwriting and Financing

Wed., Sept. 15 &
Mon., Sept. 20 Underwriting and Financing Residential Property

Reading Assignment: Text, Chapters 6 & 7

Wed., Sept. 22 More on Residential Property Financing

Reading Assignment: Text, Chapter 8

Thurs., Sept. 23 Exam Review Session (place and time TBD)

Mon., Sept. 27 **EXAMINATION #1**

IV. Income Producing Properties and Valuation Fundamentals

Wed., Sept. 29 Urban Economics: Tenant Leases and the Market for Space

Reading Assignment: Text, Chapter 9

Mon., October 4 Methods of Valuing Real Property

Reading Assignment: Text, Chapter 10

V. Making Real Estate Investment Decisions

Wed., Oct. 6 &
Mon., Oct. 11

Investment Analysis – Developing Property Cash Flows

Reading Assignment: Text, Chapter 11

Homework Assignment # 3, Due Wed., Oct.13:

Pro Forma Cash Flow Analysis (team assignment) - to be distributed on Wed., Oct. 6

Wed., Oct. 13 &
Mon., Oct. 18

Financing Alternatives: Choosing Debt and Equity Structures

Reading Assignment: Text, Chapter 12

Homework Assignment #4, Papers Due Wed., Oct. 27:

The Terrace Case (Team Assignment) – to be distributed on Wed., Oct. 13

Wed., Oct. 20

Analyzing Element of Investment Risk

Reading Assignment: Text, Chapter 13

Mon., Oct. 25

Exit Strategies: Sale vs. Refinancing or Renovation

Reading Assignment: Text, Chapter 14

Wed., Oct. 27

The Terrace Case – Class Discussion

Guest Speaker: John Morran, GMAC Commercial Mortgage, Austin

Thurs., Oct 28

Exam Review Period (place and time TBD)

Mon., Nov. 1

Corporate Real Estate Analysis

Reading Assignment: Text, Chapter 15

Guest Speaker: Rick Lieberman, Grubb & Ellis

Wed., Nov. 3

EXAMINATION #2

VI. Real Estate Development Analysis

Mon., Nov. 8 &
Wed., Nov. 10

Financing Land and Property Developments

Reading Assignment: Text, Chapters 16 & 17

*Homework Assignment # 5, Due Mon., Nov. 15:
Chapter 16, pages 463-4, Problem #2, parts 1 and 2 – Kuehner
Development Co.*

VII. Real Estate Debt and Equity Capital Markets

Mon., Nov. 15

Joint Forms of Equity Ownership

Reading Assignment: Text, Chapter 18

Wed., Nov. 17

The Secondary Mortgage Markets

Reading Assignment: Text, Chapters 19 & 20

Mon., Nov. 22

Understanding REITs

Reading Assignment: Text, Chapter 21

Web Site Review: <http://www.NAREIT.com>.

VIII. Institutional Real Estate Investment – Portfolio Performance and Considerations

Wed., Nov. 24

The Case for Institutional Investment in Real Estate

Reading Assignment: “Why Real Estate? An Expanding Role for
Institutional Investors”
Hudson-Wilson, Fabozzi, and Gordon, 2003
(article on Professor Sullivan’s web site)

Mon., Nov. 29

Course Wrap-Up

Wed. Dec., 1

Crow Holdings – An Institutional Investment Fund Perspective

Guest Speaker: Tony Dona, Managing Director, Crow Holdings

Thurs., Dec. 4

Course Review (Time and Place TBD)

Date TBD

FINAL EXAMINATION