

The Wharton School of the University of Pennsylvania

Real Estate Investments

Fall 2009

Please note that the final syllabus will be distributed in class on September 9

Real Estate 721 and Finance 721
Monday and Wednesday in Huntsman Hall F60
Section 403: 09:00 to 10:30
Section 404: 10:30 to 12:00

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Office Hours: Monday from 14:00 to 15:30

Course Objectives

There are two primary goals for this class:

1. To expose you to the terms, issues, and topics in commercial real estate; and,
2. To give you the basic skills and intuition you need to begin to evaluate a variety of real estate investments.

Real estate is a multi-faceted field, encompassing both an operating industry and a broad category of investments. It has its own institutional features, jargon, and investment structures. As the survey course in the Real Estate Department, this class aims to provide a broad overview of the real estate field, rather than a narrow focus on any particular topic. We delve more deeply into a handful of aspects of the real estate field when I believe they are particularly relevant or when the example provides a more general insight. Higher-level classes in the Real Estate Department examine in more detail many of the topics from this class.

The presumption in this class is that you have no prior real estate experience, and no pre-existing knowledge of the real estate industry is necessary to do well in this class. However, if you have prior experience in the real estate industry, some topics may be familiar to you already.

Course Materials

Textbook The required textbook is Real Estate Finance and Investments, Second Edition, by Professor Peter Linneman. It is available in the Bookstore. In addition, Commercial Real Estate Analysis and Investments by Geltner and Mille is available on reserve at Lippincott Library.

PowerPoint Slides Copies of the PowerPoint slides used in class are posted in PDF format on webCafé.

Course Packs Two course packs are available from Wharton Reprographics. One is required. The other is recommended but optional.

Additional Handouts Additional materials will be posted to webCafé. These readings are indicated on the syllabus with a double dagger (‡). On occasion, handouts may be distributed in class and billed by the bursar. I will bring handouts to class only once. After that, extra copies will be available outside my office door.

webCafé On webCafé you will find:

- Copies of the PowerPoint slides used in class (in PDF format);
- Sample Excel spreadsheets from the in-class examples;
- Practice problems, old exams, and solutions;
- Supplemental class material, such as newspaper articles;
- Announcements, updates, and clarifications; and,
- Answers to questions that are of general interest (for example, about a case)

Calculator You must have a financial calculator capable of computing annuities and present values. The calculator you were supposed to obtain for Finance 601 will be more than adequate. You are also responsible for knowing how to use the annuity and present value functions. You will need the calculator for the exams.

Case Assignments

There will be three group project cases handed out in class. You will choose your own group of three to five members, and must work with the same team on all three cases. If you cannot find a group, I will either form a group for you or assign you to a team. You may form groups with members from either section. You and your teammates should register under the “team sign-up” section on Web Café.

The cases require a variety of skills, from financial savvy to management. You should try to have a mix of talents and backgrounds on your team. In addition, I strongly encourage you not to take the “divide and conquer” approach of having only one or two team members work on each case. You will be much more successful if the group uses a truly collaborative process. You may discuss the cases with other groups. However, each group is responsible for preparing the case materials and write-ups independently.

Late cases will not be accepted nor will extensions be granted.

Examinations

Two midterm exams will be held in regularly scheduled class time, one on Wednesday, October 7 and the other on Wednesday, December 9. The second examination is not cumulative in content, but assumes proficiency in basic skills taught in the first portion of the class. Exams will cover the material examined in class and during guest lectures, the class notes, the cases, the practice problems, and the required readings. The exams are closed-book, but you are allowed to bring one 8.5” x 11” piece of paper (double-sided) of notes into each exam. You will need to bring a financial calculator to the exams. You will not be allowed to use a computer. In addition, seats will be randomly assigned on exam days.

Exams must be taken at the assigned time. If you cannot attend class on either of the scheduled dates, please drop the class. Make-up exams are not given unless you have a Wharton Dean’s Office-approved excuse. For a medical excuse, you must have been admitted to student health or the hospital, or have a physician’s letter explaining that you were incapacitated.

Class Participation and Expectations

- I expect you to be prepared for class. This means: having completed the required readings in advance of the lecture and being ready to comment on or discuss the class material;
- I expect you to be willing to participate in class discussions, and to speak up if you are lost;
- I expect you to be physically present for the talks by outside speakers unless you have a conflict with another class;
- I expect that you will not find every topic we cover to be of interest to you, but that you will be a good sport about it. Students who are considering a career in real estate development, for example, are interested in very different things than students who are considering a career on Wall Street. All the topics we will cover are of interest to someone in the class, but few are of interest to everyone.

Readings Required Required readings are indicated on the syllabus with a dagger (†). They are drawn from the textbook and the readings course pack. You should complete readings before the class for which they are listed. I encourage you to do the recommended (but optional) readings that are listed on the syllabus, especially if you are a real estate major.

Guest Speakers Guest speakers are scheduled outside of normal class time, and are listed on the syllabus. These sessions are required material and will be videotaped in case you have a conflict with another class.

Classroom Etiquette

- Students may not use computers, Blackberries, iPhones, or other digital communication devices during class unless medically necessary;
- Please silence the ringer on your mobile phone;
- Whatever seat you choose on the third class meeting (September 16) is yours for the duration of the semester.

Grading

The course grade will be based on the two equally-weighted examinations and the three equally-weighted cases. Each exam is 25 percent of your final grade; each case, 16.7 percent. You must pass both exams in order to receive a passing grade for the course.

Please be aware that the Real Estate Department had determined that MBA students who take this class Pass/Fail may not count the course toward the four credits necessary to complete the real estate concentration.

Class and Date	Topic	Preparation
Class 1 Wednesday, September 9	Overview of Commercial Real Estate Markets	Linneman, Ch 2† Emerging Trends in Real Estate, Ch 1, 2†
Class 2 Monday, September 14	Sources of Property Income and Value	Linneman, Ch 4, 5, & 7†
Class 3 Wednesday, September 16	Debt Financing and Mortgages Basics Case #1 distributed in class	Linneman, Ch 13† Linneman, Ch 11, 12
Class 4 Monday, September 21	Appraisals and Pro Forma Evaluation	Course Pack #1† Linneman, Ch 8† Optional Course Pack #1
Class 5 Wednesday, September 23	Taxes and Real Estate	Linneman, Ch 16†
Class 6 Monday, September 28	Leases and the Economics of Retail Malls	Linneman, Ch 3† Emerging Trends in Real Estate, Ch 4† Optional Course Pack #3, #4, #5
Class 7 Wednesday, September 30	Debt Structures and the Management of Real Estate Risk	Course Pack #2† Linneman, Ch 15†
Class 8 Monday, October 5	Debt Structures and the Management of Real Estate Risk, continued	Linneman, Ch 17† Optional Course Pack #2
Guest Speaker on October 5 in lieu of Class 9	Sam Zell Time and location details to be announced	
Wednesday, October 7	No Class Case #1 due at 12:00	
Class 10 Monday, October 12	Real Estate Cycles Discussion of Case #1	Course Pack #3† Linneman, Ch 20† Optional Course Pack #6, #7, #8, #9, #10
Class 11 Wednesday, October 14	Examination I	
Focussed Interview Period No classes on October 19 or October 21		
Class 12 Monday, October 26	Real Estate Cycles, continued Case #2 distributed in class	See webCafé
Class 13 Wednesday, October 28	Securitization of Debt Interests: The Commercial Mortgage-Backed Securities (CMBS) Market and the Term Asset-Backed Securities Loan Facility (TALF)	Course Pack #4† Linneman, Ch 14†
Class 14 Monday, November 2	Securitization of Debt Interests: The Commercial Mortgage-Backed Securities (CMBS) Market and the Term Asset-Backed Securities Loan Facility (TALF), continued	Course Pack #5† Optional Course Pack #11
Class 15 Wednesday, November 4	Policy Intervention in Commercial Real Estate Markets, Part I	See webCafé

Class and Date	Topic	Preparation
Class 16 Monday, November 9	Equity Securitization and the Real Estate Investment Trust (REIT) Market Case #2 due in class	Course Pack #6, #7† Linneman, Ch 18† Optional Course Pack #12, #13, #14
Class 17 Wednesday, November 11	Equity Securitization and the Real Estate Investment Trust (REIT) Market, continued Case #3 distributed in class	Linneman, Ch 10† Course Pack #8, #9, #10, #11, #12, #13, #14† Optional Course Pack #15
Class 18 Monday, November 16	Return and Risk in Residential and Commercial Real Estate Markets	Course Pack #15 Optional Course Pack #16
Class 19 Wednesday, November 18	Return and Risk in Residential and Commercial Real Estate Markets, continued	See webCafé
Class 20 Monday, November 23	Regulation: Policy Intervention in Commercial Real Estate Markets, Part II	See webCafé
Class 21 Wednesday, November 25	The Tenure Decision in Residential and Commercial Real Estate	Linneman, Ch 19†
Class 22 Monday, November 30	Policy Intervention in Commercial Real Estate Markets, Part III	See webCafé
Class 23 Wednesday, December 2	Case #3 due in class Discussion of Case #3	
Class 24 Monday, December 7	The Future of the Commercial Real Estate Industry	See webCafé
Class 25 Wednesday, December 9	Examination II	

† Required Reading ‡ Available on webCafé