



THE OHIO STATE UNIVERSITY

FISHER COLLEGE OF BUSINESS

BUSINESS FINANCE #: 4410 COURSE NAME: Real Estate Finance Autumn 2018

COURSE DESCRIPTION:

This course will continue the examination of real estate as an asset class started in BusFin 3400-Intro to Real Estate and reinforce the position that real estate continues to be important component of well-diversified portfolio. The course's goal is to provide students with a solid foundation in basic real estate finance. The course will start with a review the major real estate sectors – Multifamily, Retail, Office, Industrial plus Hotel. It will move on with an overview of the Capital Asset Pricing Model (CAPM) and discuss the real estate finance concepts such as Capitalization Rate (Cap Rate), Discounted Cash Flow (DCF) and Mortgage Amortization. The class will review the real estate capital stack and discuss the use of equity and debt in the financing of real estate. The course will touch on the various types of real estate debt from construction to permanent financing along with the current underwriting metrics used by today's practitioners. The course will then move into real estate due diligence, financial modeling and basic real estate valuation. The course will conclude with the underwriting of an industrial acquisition and the completion of Investment Committee memorandum (IC Memo).

At the completion of the class, students should be able to demonstrate a fundamental understanding of:

- Real estate as an asset class in a well-diversified portfolio.
- Real estate capital stack – equity and debt financing
- Various real estate debt structures along with current underwriting metrics.
- Alternative financing structures including sale-leasebacks, participating debt and ground leases.
- Real estate due diligence, financial modeling (DCF) and basic real estate valuation

PREREQUISITES:

BusFin 3400 – Intro to Real Estate.

CLASS MEETINGS:

Schoenbaum Hall; Room 330

M,W, 5:30-6:50 p.m.

CLASS MATERIALS:

- Real Estate Finance and Investments – Risk and Opportunities, Peter Linnenman, Ph.D. and Bruce Kirsch – Fifth Addition. The Fifth Addition has an on-line companion that students may find helpful.
- Book is available at www.linnemanassociates.com.
- Business calculator – HP12C or TI BA II Plus. You will need to become acquainted quickly with these calculators. These will be used in class and on exams.
- Microsoft Excel.
- Course readings and Case Studies assignments will be posted on Carmen (<http://carmen.osu.edu>).

- Any additional course material will also be posted to Carmen prior to class. It is expected that student be ready to actively participate in class discussion. The link and information to access the material will be posted on the content section of the course website. Please check this regularly
- Supplemental readings related to current events may be added to the course website and/or distributed in class.

PRINCIPAL INSTRUCTOR:

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OFFICE HOURS

By Appointment

GRADING:

Exams/IC Memo/IC Member/Participation	Date	% of Grade
MidTerm 1	October 8, 2018	25
IC Memo	November 16, 2018	20
- Investment Committee 1	November 19, 2018	
- Investment Committee 2	November 26, 2018	
- Investment Committee 3	November 28, 2017	
Investment Committee Participation	December 3, 2018	5
Midterm 2	December 5, 2018	25
Class Participation	Every Class	25
Total		100

Exams:

The class will have two midterm exams. The exams will be given electronically on Carmen. Students must be present in the classroom to be able to take the exam. A required password will be provided at the time of the exam. Students should bring a laptop or similar device to allow them to access the exam. Business calculators will be necessary.

IC Memo and Presentation:

Students will form five member teams using Carmen. Teams will need to be formed by Friday, August 24, 2018. Each team will be responsible for evaluating an actual broker Offering Memorandum for a newly constructed industrial building that was offered for sale. Over the course of the semester, each group will research the market, analyze the comparable properties and prepare an IC Memo. An IC Memo template will be available on Carmen. Each group will present their recommendation to a subset of the class, which will act as the IC. This will take place during the three classes prior to the review and the second midterm exam. The IC Memo will be due by midnight November 16, 2018. Each project group will be randomly assigned one of the IC dates – November 19th, November 26th, or November 28th either as a presenter or an IC member. The Offering Memorandum for the industrial

property that will be analyzed will be posted to Carmen by August 24, 2018. When presenting to the IC, each team member must present a portion of the recommendation.

Participation as an IC Member:

Each student is expected participate as IC member. As an IC member, you will be responsible for evaluating the assigned team's presentation and recommendation. As IC member you will need to vote on whether to undertake the acquisition and why. An IC member evaluation form will be available on Carmen. The IC member evaluation form will need to be completed by December 3, 2018.

Class Participation:

Participation during class is a vital part of this class. It is expected that you have read the material prior to class and come prepared to discuss in class. Each student is expected to prepare three questions relevant to the class topic and be ready to discuss if call upon. There will be times the class will be breaking up into small groups to analyze problems and report back to the broader class. I will be tracking attendance and participation and expect each one to contribute to the class on a regular basis. In addition to attendance, the participation grade will include thoughtful questions, respect for your fellow students and prohibition of electronic devices in class, except for laptops/iPads and business calculators.

Grading Scheme:

This class will follow the OSU standard Grade Scheme. The OSU Standard Grade Scheme is:

The OSU Standard Grade Scheme	
93-100	A
90-92.9	A-
87-89.9	B+
83-86.9	B
80-82.9	B-
77-79.9	C+
73-76.9	C
70-72.9	C-
67-69.9	D+
60-66.9	D
Below 60	E

EXPECTATIONS:

Electronic Devices:

The absence of unnecessary distractions and interruptions is essential for positive and effective learning environment. Therefore, students ***may only*** use a laptop or iPad to access the presentations during class or take notes. Except for business calculators, any other electronic device ***may not*** be used in class without submitting a prior written request and receiving explicit permission from the instructor. All non-approved electronic devices must be turned off and put away prior to the start of the class. The instructor reserves the right to disallow laptops and iPads if they are used for other purposes other than accessing the current class material or taking notes.

Exam Policy:

There are two midterm exams. The IC Memo and presentation is in lieu of a final exam. **There will be no make-up exams unless prior written approval from the instructor prior to the exam date (approval may be withheld for any reason) If approved, any make up exams will be facilitated in the computer lab in Mason Hall and must be completed no later than the following day.**

Extra Credit

Extra credit will not be offered unless it is available to the entire class.

Office Hours and Communication

I will not have set office hours, but will be available to speak to any student by appointment. Please e-mail at both my OSU (stuckwish.1@osu.edu) and my personal (sestuck@gmail.com) to make an appointment. In the e-mail, please give me a general idea of the topic you wish to discuss so I may be better prepared before our appointment. I will respond as soon as I am able, but no later than 48 hours. Most appointments will need to be in the evening hours.

Course Website

I will maintain communication through Carmen (<http://carmen.osu.edu>). I will use this website post course material, readings and assignments. Please check this regularly.

DISENROLLMENT

University Rule 3335-8-3 provides that a student may be dis-enrolled after the third instructional day of the semester, the first Friday of the semester, or the student's second class session of the course, whichever occurs first, if the student fails to attend the scheduled course without giving prior notification to the instructor.

ACADEMIC MISCONDUCT

Academic misconduct will not be tolerated. According to University Rule 3335-1-31-02, all suspected cases of academic misconduct will be reported to the Committee on Academic Misconduct.

DISABILITY SERVICES

The Office of Disability Services verifies students with specific disabilities and develops strategies to meet the needs of those students. Students requiring accommodations based on identified disabilities should contact the instructor at the beginning of the semester to discuss his/her particular needs. All students with a specific disability are encouraged to contact the Office of Disability Services to explore the potential accommodations available to them.

CLASS SCHEDULE:

Week	Date	Topic
<u>Overview/Review</u>		
WEEK 1	August 22, 2018	Introduction/Real Estate as an Asset Class
WEEK 2	August 27, 2018	Review of the Major Property Types + Hotel/Risk and Returns
<u>Section 1 - CAPM and the RE Financial Foundation</u>		
	August 29, 2018	Capital Asset Pricing Model (CAPM)
WEEK 3	September 3, 2018	LABOR DAY - No Class
	September 5, 2018	Annuities, Present Value and Amortization
WEEK 4	September 10, 2018	Perpetuities, Gordon Model and Capitalization Rate (Cap Rate)
	September 12, 2018	Discounted Cash Flow Analysis (DCF)
WEEK 5	September 17, 2018	Real Estate Capital Stack (Equity versus Debt)
	September 19, 2018	Real Estate Equity
WEEK 6	September 24, 2018	Use of Debt and Mortgages - Underwriting Metrics
	September 26, 2018	Construction, Transitional and Permanent Debt Financing
WEEK 7	October 1, 2018	Sale Leasebacks, Participating Debt and Ground Leases
	October 3, 2018	Review
WEEK 8	October 8, 2018	Midterm 1
<u>SECTION 2: Due Diligence, Financial Modeling and Real Estate Value</u>		
	October 10, 2017	Real Estate Due Diligence
WEEK 9	October 15, 2018	Real Estate Cycles and Analyzing Metropolitan Long-term Growth Patterns
	October 17, 2018	Commercial Leases Analysis
WEEK 10	October 22, 2018	Development Feasibility
	October 24, 2018	Real Estate Owner Exit Strategies
WEEK 11	October 29, 2018	Real Estate Proforma - Financial Modeling
	October 31, 2018	Real Estate Investment Return Profiles
WEEK 12	November 5, 2018	Institutional Real Estate Investing
	November 7, 2018	Forces Changing the Real Estate Industry Forever
WEEK 13	November 12, 2018	No Class - Veterans Day Observed
	November 14, 2018	No Class - Investment Committee Memorandum Work Day
	November 16, 2018	IC Memorandum Due by Midnight - 395 Pedicktown Road, Logan Township, NJ
<u>SECTION 3: Investment Committees</u>		
WEEK 14	November 19, 2018	Investment Committee 1
	November 21, 2018	No Class - Thanksgiving Break
WEEK 15	November 26, 2018	Investment Committee 2
	November 28, 2017	Investment Committee 3
WEEK 16	December 3, 2018	Review
	December 5, 2018	Midterm 2

(Note: This syllabus is subject to change)