FINC 380 01: REAL ESTATE INVESTMENT ANALYSIS SYLLABUS - Spring 2022

Instructor: Mark J. Buono, Ph.D.  Meeting Times: MW 3:25-4:40
Office: Beatty Center, 413  Location/Room: Beatty 214
Phone: 843-953-8121  Email: buonomj@cofc.edu
Office Hours: Mondays and Wednesdays 1:30 – 3:15 via Zoom or in person

PREREQUISITES:
Junior rank or higher; ACCT 203, 204, FINC 303, ECON 200, ECON 201, MATH 104 (or MATH 250), and REAL 310; or permission of the instructor.

COURSE DESCRIPTION:
This course will cover the fundamental concepts of real estate investment analysis. This course will provide a framework for making real estate investment decisions based on key financial returns/metrics and risk assessment. The course will focus on mastering cash flow and proforma forecasting to inform real estate investment decisions involving acquisitions, development, dispositions, debt, leases, and joint ventures.

OBJECTIVES OF THE COURSE:
This course will focus on real estate investment analysis and decision-making. Students will learn to use technology in making real estate financial decisions, including the use of current data and relevant software applications (e.g., Excel). By the end of this course, students should be able to:

1. Apply appropriate tools, skills, and information to real estate investment opportunities. Students will demonstrate the ability to analyze information about the financial performance of real estate investments.

2. Develop the knowledge and skills required to estimate the value of real estate assets.

3. Develop skills and intuition required to evaluate a variety of decisions faced by financial managers in real estate.

SCHOOL OF BUSINESS LEARNING GOALS:
The School of Business Learning goals addressed by this course include:

COMMUNICATION SKILLS: Students demonstrate the ability, via both written and spoken word, to effectively present, critique, and defend ideas in a cogent, persuasive manner. Students should be able to present thoughtful arguments during case discussions, submit analytical written papers and project reports.
QUANTITATIVE FLUENCY:
Students demonstrate competency in logical reasoning and data analysis skills. This course requires an aptitude in comprehending and applying quantitative data and methods in solving practical real estate problems.

SYNTHESIS: Students demonstrate the ability to integrate knowledge from multiple disciplines incorporating learning from both classroom and non-classroom settings in the completion of complex and comprehensive tasks. Students will develop the ability to synthesize information from real estate transactional documents and other sources.

REQUIRED TEXT:

The text is available directly from Linneman Associates. https://www.linnemanassociates.com/real-estate-finance-textbook or through the bookstore.

SUPPLEMENTARY READING:

Supplemental readings will also be provided by the instructor, and these will be covered on any exams.

METHOD OF INSTRUCTION:
This course is conducted on a lecture/discussion basis. OAKS, including Gradebook, will be used for this course throughout the semester to provide the syllabus and class materials and grades for each assignment, which will be regularly posted.

Class sessions may be recorded via both voice and video recording. By attending and remaining in this class, the student consents to being recorded. Recorded class sessions are for instructional use only and may not be shared with anyone who is not enrolled in the class.

If in-person classes are suspended, faculty will announce to their students a detailed plan for a change in modality to ensure the continuity of learning. All students must have access to a computer equipped with a web camera, microphone, and Internet access. Resources are available to provide students with these essential tools.

You are assigned readings in the text and there may be other assigned readings at the instructor’s discretion. The instructor will use real life examples to help further educate the students.

COURSE MATERIALS AND TECHNOLOGY:
Course materials will be distributed via OAKS. Students are expected to check their OAKS accounts regularly to download any materials provided for class. You need a computer with access to high speed internet. Kindly be advised that failure of your internet connection or computer during an exam/quiz will not be a good enough justification to retake the said quiz/exam. Your computer should have Microsoft (e.g. Word, Powerpoint and Excel) installed. If you have any technical issues, kindly contact the Student Computing Support Desk at (843)-953-8000 or https://it.cofc.edu/help/studentcomputing.php
You should log into the course at least 4 days a week in order to be successful. Note that I can see when you log into OAKS and can monitor your progress. Again, in order to maintain a cordial and effective learning environment, it is important to be courteous in your online postings and communication with your instructor as well as your fellow students. Any insulting or inflammatory remarks or comments – whether explicit or implicit – will not be tolerated and will affect your grade.

**COMMUNICATION CLASS CLIMATE:**
The best way to contact me with personal questions/issues is via my email at buonomj@cofc.edu. An online meeting can be scheduled by appointment via Zoom or in-person. Generic questions relating to the lecture materials can be posted on “Course Questions” discussion board on OAKS. I will usually try to respond within 24 hours on weekdays. I may not be able to respond to your email within 24 hours on weekends. In order to maintain a cordial and effective learning environment, it is important to be courteous in your online postings and communication with your instructor as well as your colleagues.

**ASSIGNMENTS AND EXAM**
Excel Projects: There will be four Excel projects this semester. Instructions for the four projects will be posted on OAKS along with due dates. Completed projects should be submitted on OAKS. Late homework projects may be accepted by the instructor within 12 hours of the due date but will incur a 20% penalty per hour. Assignments will not be accepted more than 12 hours after the due date.

Exams: There will be two exams. The exams may be made up of a combination of multiple choice, short answers and calculations based on readings, exercises, and class discussions. There will be a review before the exam. If a student will miss an exam due to illness, family emergency, or work emergency, the student must contact the instructor in advance of the exam period and receive permission to take a make-up exam.

Final Project: The final project will apply the cumulative concepts and knowledge gained during the semester. Students will work in groups. The group will identify, evaluate, and present a real estate investment for the class in the final week of class.

Class participation: To be successful in this class, you must be both present and participate in class discussions. In the event the class is taught remotely, the students are required to have their video turned on.

Discussion Board: Questions from the lecture material or the assignments should be posted to the Course Questions discussion board. If you have a question on the course material, it is likely that you are not alone.

**GRADING CRITERIA:**

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<thead>
<tr>
<th>Component</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Excel Projects (4)</td>
<td>40%</td>
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<td>Exams (2)</td>
<td>30%</td>
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<tr>
<td>Final Project</td>
<td>20%</td>
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<td>Participation</td>
<td>10%</td>
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Your final numeric average, avg, will translate into a letter grade as shown below.

<table>
<thead>
<tr>
<th>93≤ avg ≤100</th>
<th>A</th>
<th>77≤ avg &lt;80</th>
<th>C+</th>
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<tbody>
<tr>
<td>90≤ avg &lt;93</td>
<td>A-</td>
<td>73≤ avg &lt;77</td>
<td>C</td>
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<tr>
<td>87≤ avg &lt;90</td>
<td>B+</td>
<td>70≤ avg &lt;73</td>
<td>C-</td>
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<tr>
<td>83≤ avg &lt;87</td>
<td>B</td>
<td>60≤ avg &lt;70</td>
<td>D</td>
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<tr>
<td>80≤ avg &lt;83</td>
<td>B-</td>
<td>avg &lt; 60</td>
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There will be no resubmission of an exam or project for a higher grade. Any bonus point questions on exams will be available to all students.

**ATTENDANCE AND EXAM POLICY:**
Because we may not always meet face-to-face, it is very important that you maintain an active presence in the class, including posting to and reading discussion board threads. I will post topics for discussion from time to time if the class goes virtual. Remember that discipline and hard work are key to being successful in this course.

**WRITING LAB:**
I will urge you to take advantage of the Writing Lab in the Center for Student Learning (Addlestone Library, first floor). Trained writing consultants can help with writing for all courses; they offer one-to-one consultations that address everything from brainstorming and developing ideas to crafting strong sentences and documenting sources. For more information, please call (843)-953-5635 or visit http://csl.cofc.edu/labs/writing-lab

**CENTER FOR STUDENT LEARNING:**
The Center for Student Learning’s (CSL) academic support services provide assistance in study strategies, speaking & writing skills, and course content. Services include tutoring, Supplemental Instruction, study skills appointments, and workshops. Students of all abilities have become more successful using these programs throughout their academic career and the services are available to you at no additional cost. For more information regarding these services please visit the CSL website at http://csl.cofc.edu/ or call (843) 953-5635.

**MENTAL & PHYSICAL WELLBEING:**
At the college, we take every students’ mental and physical wellbeing seriously. If you find yourself experiencing physical illnesses, please reach out to student health services (843.953.5520). And if you find yourself experiencing any mental health challenges (for example, anxiety, depression, stressful life events, sleep deprivation, and/or loneliness/homesickness) please consider contacting either the Counseling Center (professional counselors at http://counseling.cofc.edu or 843.953.5640 3rd Robert Scott Small Building) or the Students 4 Support (certified volunteers through texting "4support" to 839863, visit http://counseling.cofc.edu/cct/index.php, or meet with them in person 3rd Floor Stern Center). These services are there for you to help you cope with difficulties you may be experiencing and to maintain optimal physical and mental health.

**FOOD & HOUSING RESOURCES:**
Many CoFC students report experiencing food and housing insecurity. If you are facing challenges in securing food (such as not being able to afford groceries or get sufficient food to
eat every day) and housing (such as lacking a safe and stable place to live), please contact the
Dean of Students for support (http://studentaffairs.cofc.edu/about/salt.php). Also, you can go to
http://studentaffairs.cofc.edu/student-food-housing-insecurity/index.php to learn about food and
housing assistance that is available to you. In addition, there are several resources on and off
campus to help. You can visit the Cougar Pantry in the Stern Center (2nd floor), a student-run
food pantry that provides dry-goods and hygiene products at no charge to any student in need.

INCLUSION:
The College of Charleston offers many resources for LGBTQ+ students, faculty and staff along
with their allies.

Preferred Name and Pronoun Information
On Campus Gender Inclusive facilities
Campus Resources
College of Charleston Reporting Portals
National Resources for Faculty & Staff
GSEC Reports
Documenting LGBTQ Life in the Lowcountry (CofC Addlestone Library Special
Collections Project) College of Charleston Quality Enhancement Plan (QEP)
Articles about CofC and LGBTQ+ Issues

ACCOMMODATION FOR DISABILITIES:
Any student eligible for and needing accommodations because of a disability is requested to
speak with the professor during the first two weeks of class or as soon as the student has been
approved for services so that reasonable accommodations can be arranged.

The College will make reasonable accommodations for persons with documented disabilities.
Students should apply for services at the Center for Disability Services/SNAP located on the first
floor of the Lightsey Center, Suite 104. Students approved for accommodations are responsible
for notifying me as soon as possible and for contacting me one week before accommodation is
needed.

This College abides by Section 504 of the Rehabilitation Act of 1973 and the Americans with
Disabilities Act. If you have a documented disability that may have some impact on your work in
this class and for which you may require accommodations, please see an administrator at the
Center of Disability Services/SNAP, (843) 953-1431) or me so that such accommodation may be
arranged.

For more information, you may visit the disability services website:
http://disabilityservices.cofc.edu/

ACADEMIC MISCONDUCT:
Academic dishonesty will not be tolerated. Cheating on tests or assignments that are not considered
group assignments will not be tolerated and a zero grade will be given if it occurs. No use of cell
phones is allowed during tests and these should be turned to silent ring tones during class sessions
as well as tests. The undergraduate catalog has a detailed policy on academic misconduct.
COLLEGE OF CHARLESTON HONOR CODE AND ACADEMIC INTEGRITY:
Lying, cheating, attempted cheating, and plagiarism are violations of our Honor Code that, when identified, are investigated. Each incident will be examined to determine the degree of deception involved.

Incidents where the instructor determines the student’s actions are related more to a misunderstanding will handled by the instructor. A written intervention designed to help prevent the student from repeating the error will be given to the student. The intervention, submitted by form and signed both by the instructor and the student, will be forwarded to the Dean of Students and placed in the student’s file.

Cases of suspected academic dishonesty will be reported directly by the instructor and/or others having knowledge of the incident to the Dean of Students. A student found responsible by the Honor Board for academic dishonesty will receive a XXF in the course, indicating failure of the course due to academic dishonesty. This grade will appear on the student’s transcript for two years after which the student may petition for the XX to be expunged. The F is permanent. The student may also be placed on disciplinary probation, suspended (temporary removal) or expelled (permanent removal) from the College by the Honor Board.

Students should be aware that unauthorized collaboration--working together without permission--is a form of cheating. Unless the instructor specifies that students can work together on an assignment, quiz and/or test, no collaboration during the completion of the assignment is permitted. Other forms of cheating include possessing or using an unauthorized study aid (which could include accessing information via a cell phone or computer), copying from others’ exams, fabricating data, and giving unauthorized assistance.

Research conducted and/or papers written for other classes cannot be used in whole or in part for any assignment in this class without obtaining prior permission from the instructor.

Students can find the complete Honor Code and all related processes in the Student Handbook at http://deanofstudents.cofc.edu/honor-system/studenthandbook/

EXPECTATIONS:

What I Expect of You:
I expect you to read the textbook chapters and supplemental readings provided.

I expect you to participate in discussions in class and online in discussion boards, and to speak up if you need clarification.

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.

Expectations of Me:
Expect me to have an active OAKS presence in the course of the semester during weekdays.
Expect me to make course materials/assignments/quizzes/exams available on OAKS in a timely manner.

Expect me to respond to emails within 24 hours on weekdays.

Expect to receive feedback from me on graded assignments a week after their due dates.

STUDENT ASSESSMENT:
Your constructive assessment of this course plays an indispensable role in shaping education at College of Charleston. Upon completing the course, please take time to fill out the online course evaluation.

Course Road Map

Course Introduction – Understand the topics to be covered in the semester and introduce real estate investment concepts of risk and return. Understand the major commercial property types.

- Topics
  - Syllabus
  - Buono intro
  - Real Estate – Risk and Return
  - What is Real Estate?
- Readings: Chapters 1, 2

Property-level Pro Forma Analysis – Understand the lease characteristics across property types. Develop the knowledge and skills to generate pro forma income statements on a property (unlevered) basis. Also, develop the knowledge to generate before- and after-tax cash flows on commercial properties.

- Topics
  - Real estate investment overview
  - Fundamentals of commercial leases
  - Pro Forma Income Statements
    - Operating income
    - Operating expenses
    - NOI
    - Capital and leasing costs
  - Property (Unlevered) cash flow
  - Cap ex vs. Depreciation
  - Levered cash flow
  - Taxable income
  - After-tax cash flow
- Readings: Chapters 4-5, Lease example, Loss to Lease, Co-tenancy
- Assignments: Excel Project 1
- Test 1

Financial Modeling and Valuation – How to determine if a commercial real estate investment is a good investment. Develop the knowledge and skills to calculate key performance indicators.
Topics
  o Review of Time Value of Money
  o Cap Rates
    ▪ Cap rate valuation
    ▪ Constant-growth model
    ▪ Cap rate movement
    ▪ Back-of-the-envelope valuation
  o Performance measurements – IRR and NPV
    ▪ Net Cash Flow
    ▪ Cash-on-cash
    ▪ IRR and NPV
    ▪ Equity multiple
  • Readings: Chapters 9,6, Prerequisite I, Prerequisite II,
  • Assignments: Excel Project 2, Excel Project 3

Development Pro Forma – How do you evaluate the investment in a new development? What are the additional risks associated with new development?
  • Topics
    o Phases of property development
    o Feasibility analysis
  • Readings: Chapters 10-11

Due Diligence – How do I confirm my valuation assumptions before proceeding with an investment?
  • Topics
    o Purpose of due diligence
    o Due diligence checklist
    o Site Visit
    o 3rd Party reports
    o “Check-up” on your partners
    o “Test” your assumptions
  • Readings: Chapter 7

Real Estate Private Equity – Private real estate investment in a fund format
  • Why private equity funds?
  • Fund types
  • Readings – Chapter 19-20

Real Estate Company Analysis – Valuation of the real estate company relative to a project
  • Topics
    o Company vs. property analysis
    o RE company valuation
  • Readings: Chapters 12, 21

Public Real Estate Debt
  • Topics
    o REIT unsecured debt
    o CMBS
  • Readings: Supplement II, Readings
Private Real Estate Debt

- Topics
  - What is private real estate debt?
  - Who are the debt providers?
  - Returns

- Readings: Readings

**Funding** – How to pay for the project? Who provides debt and what form does the debt take? Where does the equity funding come from? How are equity investments structured?

- Topics
  - Why Debt?
  - Debt Providers
  - Leverage and Risk
  - Levered returns – IRR and NPV with debt. Pre-tax and after-tax levered returns
  - Types of Debt
  - Equity Structures
  - Ground Leases

- Readings: Chapters 14, 15, 17

- Assignments: Excel Project 4

**Real Estate Cycles** – Where are we in the real estate cycle? How will that influence our investment decisions?

- Topics
  - Analyzing MSA growth patterns
  - What are real estate cycles?

- Readings: Chapters 8 and 25

**Final Project** – Your group will go out into the Charleston area and find an investment opportunity. The site can be a piece of land or an existing building. It must be an incoming producing property and a commercial use. Your group will prepare a PowerPoint presentation and make a 10-15 minute presentation. The presentations will be during the last two class periods.