

**Graduate Program in Urban Planning
School of Architecture and Urban Design
University of Kansas**

UBPL 764
Real Estate Development Planning I
Fall, 2006

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Line Number: 22156
3 Credits

11:00-12:15 Tuesday, Thursday
308 Marvin

COURSE SYLLABUS

Introduction and Objectives

This course is designed to provide a working knowledge of the techniques of real estate investment analysis. As a planning course, the emphasis is placed upon the process as performed by the practicing planner working with the public sector. This means that the course covers much of the same material that is normally included in a real estate development course in a business school. However, this material is augmented with the study of techniques used to achieve public sector goals. Among the topics covered in the course are: the calculation of return on investment in real estate; the financing of real estate development; the various forms of property ownership; the implications of tax laws upon the rehabilitation of historic properties; and the provision of low-income housing.

Format

The course has been developed around a problem-solving format. The best way to learn how real estate investments are structured is to solve problems that confront real estate investment analysts and planners when they review development proposals. As such, there will be several assignments that require the student to resolve investment problems. Given the extensive use of personal computers and spreadsheet software for this type of work, the assignments must be completed using these tools. To accommodate this type of work, the course format will be divided between three components: (1) Lectures on various topics of investment analysis; (2) Discussion of the problem sets; and (3) Lectures and demonstrations on the use of personal computers and spreadsheet software.

Course Assignments

A series of seven assignments must be completed during the semester. The seven assignments involve the practical application of investment analysis techniques to situations that are typical of those confronting planners. These assignments become increasingly complex as the course progresses and are cumulative in nature. The assignments cover:

1. Calculation of present value and loan payment amount.
2. Calculation of amortization tables and variable rate mortgages.
3. Calculation of internal rates of return and other forms of return on investment.
4. Dynamic cash flow models to analyze project feasibility before taxes.
5. Dynamic cash flow models to analyze project feasibility after taxes.
6. Use and valuation of Historic Rehabilitation Tax Credits.
7. Use and valuation of Low-Income Housing Tax Credits.

The first three assignments involve only the numerical analysis of an investment problem. The last four assignments involve the numerical analysis of case problems plus the preparation of concise memoranda summarizing the results of the analysis.

A comprehensive final examination will be given.

Requirements and Grading

The following weights will be used in the determination of a final grade in the course:

Assignment One:	5 %
Assignment Two:	5 %
Assignment Three:	5 %
Assignment Four:	15 %
Assignment Five:	10 %
Assignment Six:	20 %
Assignment Seven:	20 %
Final Examination:	20 %

In order to keep current in the course, assignments will be discussed as soon as they are due. Work completed after class discussion of the assignment's solution is inappropriate for grade evaluation. As such, assignments will not be accepted late. While students are encouraged to work together in the preparation for this course, the completed assignments must be the product of the individual student. Students are expected to submit work of high quality suitable to a professional degree program at the graduate level. Students should be aware of the University rules regarding academic misconduct. These are summarized in the Student Handbook.

Students who do not complete the work required in the course will be given a grade of "I" only where, for good reason, some part of the work has not been done while the remainder of the work has been satisfactorily completed.

Disabled Students

Any student who, due to disability, may not be able to complete the requirements for the course should contact the instructor as soon as possible so that appropriate accommodations can be made.

Schedule Conflicts

If any scheduled assignment or examination conflicts with a mandated religious observation, the student should immediately contact the instructor to arrange a make-up assignment or examination on a mutually acceptable date.

Disclaimer

This syllabus is to serve as a guide only. The course is subject to change due to extenuating circumstances.

Required Texts

One text is required for the course. This book has been ordered through the Kansas Union Bookstore. It is:

Mike E. Miles, Gayle Berens and Marc A. Weiss, *Real Estate Development: Principles and Process*, 2000, Third Edition, Urban Land Institute.

It is recommended that students, who are not already familiar with the use of the Excel or other comparable spreadsheet program, should acquire a book on the use of one of these software packages. The book should provide both instructions for the new user to facilitate learning the program and reference information for the experienced user so that questions can be answered easily while using the program. As many such books are readily available in bookstores and as many of these books adequately meet the needs of this course, no single book has been ordered. The student should look over several of these books and purchase the one which seems to be the book best suited to the student's style and level of experience.

The assignments, plus various other materials needed for the course, have been compiled into a course workbook. This workbook is available on the course website in PDF format. Each student should have a copy of the workbook available during each class session.

A topic outline is attached that provides a schedule to course lectures. Due dates of assignments are listed on the outline. These dates are subject to change as the course progresses. Readings are listed on the outline as well. Where the reading refers to a chapter number, this reading is from the textbook. Other readings are cited by the author's name and can be found in the supplemental reader. These supplemental readings have also been digitized and are available through Watson Library's electronic reserve system.

Topic Outline and Readings**Lecture 1.: Introduction to Course**

Topics: *Why planners need to understand real estate development
Format and requirements of the course*

Dowall, David E., "Applying Real Estate Financial Analysis to Planning and Development Control," *Journal of the American Planning Association*, Vol. 51, No. 1, Winter, 1985, pp. 84-94.
<Applying Real Est. to Planning.pdf>

Dowall, David E., "The Public Real Estate Development Process," *Journal of the American Planning Association*, Vol. 56, No. 4, Autumn, 1990, pp. 504-512.
<Public Real Estate Development Process.pdf>

Lecture 2.: The Real Estate Development Process

Topic: *Stages of the Development Process I*

Miles, Berens and Weiss: Chapter 1. Introduction to the Real Estate Development Process

Lecture 3.: The Real Estate Development Process

Topic: *Stages of the Development Process I*

Miles, Berens and Weiss: Chapter 2. The Raw Material: Land and Demographics in the United States, and Chapter 3. Developers and Their Partners

Lecture 4.: Real Estate as an Investment

Topic: *Real Estate as Investment*

Miles, Berens and Weiss: Chapter 4.: Real Estate Finance: The Institutional Setting

Lecture 5.: Discounting: The Value Today of Future Streams of Income

Topic: *How to investors and lenders decide how much to invest?*

Miles, Berens and Weiss: Chapter 5.: Financial Theory: The Logic behind Real Estate Financing Decisions

Lecture 6.: Discounting: Present Value and Loan Types

Topic: *How to determine the present value of future payment(s).*

Workbook.

Lecture 7.: Loan Calculations

Topics: *How to determine the payment on loan*
How to determine the loan value of a stream of payments

Workbook.

Miles, Berens and Weiss: Chapter 6: Innovations in Real Estate Finance.

Lecture 8.: Amortization Tables and Variable Rate Loans

Topic: *How to prepare a loan amortization table*
How to calculate payments on variable interest rate loans

Workbook.

Lecture 9.: Return on Investment: Internal Rate of Return and Net Present Value

Topic: *How to calculate the return on investment of a variable stream of payments*

Kharabe, Prakash and Andrew Rimbach, "MRR, IRR, and NPV as Project Ranking Measures," *Real Estate Review*, Vol. 19, No. 2, Summer, 1989, pp. 74-80.
<MRR, IRR, and NPV as Project-Ranking Measures.pdf>

Lecture 10.: Critiques of IRR

Topic: *Does the IRR mislead investors or do investors misuse the IRR?*

Lewis, Barbara J., "Real Estate Investment Analysts Should Not Rely on Standard Financial Measures," *Real Estate Review*, Vol. 20, No. 1, Spring, 1990, pp. 90-92.
<Real Estate Analysts Shouldn't Rely On.pdf>

Roulac, Stephen E., "The Demise of the IRR?," *Real Estate Finance*, Vol. 9, No. 4, Winter, 1993, pp. 11-18.
<The Demise of the IRR.pdf>

Lecture 11.: Preparation of a Pro Forma: Operation

Topic: *Application of discounting theory to a real estate development; the pro forma*

Miles, Berens and Weiss: Chapter 16. Stage Three: The Feasibility Study.

Etter, Wayne E., "Financial Feasibility Analysis for Real Estate Development," *The Journal of Real Estate Development*, Vol. 4, No. 1, Summer, 1988, pp. 44-55.
<Financial Feasibility Analysis for Real Estate Development.pdf>

Lecture 12.: Preparation of a Pro Forma: Reversion

Topic: *The pro forma for sale of property*

Workbook

Lecture 13.: Evaluation of a Pro Forma

Topic: *How does a planner or investor know a good the pro forma from a bad one?*

Martin, Vernon, III, "Nine Abuses Common in Pro Forma Cash Flow Projections," *Real Estate Review*, Vol. 18, No. 3, Fall, 1988, pp. 20-25.

<9 Abuses Common in Pro Forma Cash Flow Projections.pdf>

Tebow, Brad, "In Defense of DCF Analysis," *Real Estate Review*, Vol. 24, No. 3, Fall, 1994, pp. 43-49.

<In Defense of DCF Analysis.pdf>

Pollack, Bruce, "Breakeven Analysis: The Third Leg of the Underwriting Stool," *Real Estate Review*, Vol. 25, No. 2, Summer, 1995, pp. 43-46.

<Breakeven Analysis-The 3rd Leg of the Underwriting Stool.pdf>

Lecture 14.: Taxation of Real Estate

Topic: *Is real estate taxed differently from other types of investment?*

Follain, James R., Patric H. Hendershott, and David C. Ling, "Understanding the Real Estate Provisions of Tax Reform: Motivation and Impact," *National Tax Journal*, Vol. XL, No. 3, pp. 363-372.

<Understanding the Real Estate Provisions of Tax Reform-Motiv.pdf>

Lecture 15.: Taxation of Real Estate: Operation

Topic: *How are earnings from operation of real estate taxed?*

Workbook.

Lecture 16.: Taxation of Real Estate: Reversion

Topic: *How are earnings from the sale of real estate taxed?*

Workbook.

Lecture 17.: Pro forma: Optimal Holding Periods

Topic: *How does an investor know the best time to sell a property?*

Mittelbach, Frank G., and Russell Thompson, "Uncovering the Biases in Real Estate Projections," *Real Estate Review*, Vol. 18, No. 1, Spring, 1988, pp. 38-42.

<Uncovering the Biases in Real Estate Projections.pdf>

Lecture 18: Project Concept

Topic: *How do developers know what to build and where to build it?*

Miles, Berens and Weiss: Chapter 10. Stage One: Inception of an Idea and Chapter 11. Market Research: A Tool for Generating Ideas.

Papke, Gary, and Cheryl Inghram, "Detecting the Flaws in Market Analysis," *Planning*, Vol. 56, No. 6, June, 1990, pp. 18-22.
<Detecting the Flaws in Market Analysis.pdf>

Rabianski, Joseph, "Market Analyses and Appraisals: Problems Persist," *Real Estate Review*, Vol. 24, No. 4, 1995, pp. 45-49.
<Market Analyses and Appraisals-Problems Persist.pdf>

Lecture 19: Market Analysis: General

Topic: *How can planners detect flaws in poorly prepared market analyses?*

Miles, Berens and Weiss: Chapter 12. Stage Two: Refinement of the Idea.

Redfearn, Christian L. and Larry A. Rosenthal, "The Case for Monitoring Real Estate Prices: Data and Methods for Informing the Planning Process," in *Land Market Monitoring for Smart Urban Growth*, Gerrit J. Knaap, editor, Cambridge, Massachusetts: The Lincoln Institute of Land Policy, 2001, pp 287-305.
<The Case for Monitoring Real Estate Prices_1.pdf>
<The Case for Monitoring Real Estate Prices_2.pdf>

Lecture 20: Market Analysis: Retail Markets

Topic: *How can planners detect flaws in poorly prepared market analyses?*

Miles, Berens and Weiss: Chapter 17. Market Data and Chapter 18. Data Sources Supporting Market Studies

McClure, Kirk, "Monitoring Industrial and Commercial Land Market Activity," in *Land Market Monitoring for Smart Urban Growth*, Gerrit J. Knaap, editor, Cambridge, Massachusetts: The Lincoln Institute of Land Policy, 2001, pp 263-286.
<Monitoring Industrial and Commercial Land Market Activity_1.pdf>
<Monitoring Industrial and Commercial Land Market Activity_1.pdf>

Lecture 21: Historic Rehabilitation Tax Credits

Topic: *How do Historic Rehabilitation Tax Credits work?*

Alperin, Kenneth, "Differences between the Historic Rehabilitation Tax Credit and the Low-Income Housing Tax Credit," Boston: Nixon Peabody LLP.
<Differences Between the Housing Rehabilitation Tax Credit.pdf>

Miles, Berens and Weiss: Chapter 13. The Roles of the Public Sector and Chapter 14. Meshing Public and Private Roles in the Development Process

Lecture 22: Historic Rehabilitation Tax Credits

Topic: *What is the optimal holding period with Historic Rehabilitation Tax Credits?*
Workbook.

Lecture 23: Low-Income Housing

Topic: *How do Low-Income Housing Tax Credits work?*

The Washington State Housing Finance Commission. 2004.
Excerpts from LIHTC Introductory Guide: Introduction. As found at
<http://www.wshfc.org/tax-credits/intro.htm>, posted June 11, 2004.
<LIHTC WSCFC.dbf>

Lecture 24: Low-Income Housing

Topic: *How much are tax credits worth?*

McClure, Kirk, "Low and Moderate Income Housing Tax Credits: Calculating their Value," *Journal of the American Planning Association*, Vol. 56, No. 3, Summer, 1990, pp. 363-369.
<Low and Moderate Income Housing Tax Credits.pdf>

Lecture 25: Low-Income Housing

Topic: *How does the pro forma for a Low-Income Housing Tax Credit development work?*
Workbook.

Lecture 26: Low-Income Housing

Topic: *How does the pro forma for a Low-Income Housing Tax Credit development work?*
Workbook.

Lecture 27: Appraisal

Topic: *What are the three approaches to the appraisal of property value?*

Jacobs, Eric K., "Appraising the Appraisal: A Developer's Guide to Appraisal Techniques," *The Journal of Real Estate Development*, Vol. 4, No. 4, Spring, 1989, pp. 37-44.
<Appraising the Appraisal-A Developers Guide to Appraisal Tec.pdf>

Fiedler, Lawrence E., "The Problem with Commercial Property Appraisals Today," *Real Estate Review*, Vol. 25, No. 4, Winter, 1996, pp. 33-36.
<The Problem is Commercial Property Appraisals Today.pdf>

Lecture 28.: Appraisal

Topic: *What are the critiques of the appraisal process?*

Owens, Robert W., "An Appraiser Examines Four Types of Return Rates," Real Estate Review, Vol. 25, No. 4, Winter, 1996, pp. 37-41.

<An Appraiser Examines 4 Types of Return Rates.pdf>

Jud, Donald G. and Daniel T. Winkler, "The Capitalization Rate of Commercial Properties and Market Returns," The Journal of Real Estate Research, Vol. 10, No. 5, 1995, pp. 509-518.

<The Capitalization Rate of Commercial Properties and Market .pdf>

Liteplo, Donald N., "Cap Rate Valuation Must Yield to Intensive Multi-Factor Analysis," Real Estate Review, Vol.24, No. 3, Fall, 1994, pp. 36-42.

<Cap Rate Valuation Must Yield.pdf>

Lecture 29: **Guest Speaker**

Topic: *Application of Real Estate Investment Analysis by Program Graduate.*

Lecture 30.: **Review and Summation**

Topic: *What has been learned and what is next?*

Topic Outline and Assignments for the Class

Week	Date	Meeting	Topic	Text	Supplemental Reading	Assign
1	17-Aug	1	Introduction to Course		Dowall (85); Dowall (90)	
2	22-Aug	2	Development Process I	1		
	24-Aug	3	Development Process II	2,3		
3	29-Aug	4	Real Estate as Investment	4		
	31-Aug	5	Discounting	5		
4	5-Sep	6	Present Value			
	7-Sep	7	Loan Calculations	6		
5	12-Sep	8	Amortization Tables			
	14-Sep	9	NPV and IRR		Kharabe	1
6	19-Sep	10	Critiques of IRR		Lewis; Roulac	
	21-Sep	11	Pro forma: Operation	16	Etter	2
7	26-Sep	12	Pro forma: Reversion			
	28-Sep	13	Pro forma: Evaluation		Martin; Tebow; Pollack	3
8	3-Oct	14	Taxation: Introduction		Follain	
	5-Oct	15	Taxation: Operation			
9	10-Oct	16	Taxation: Reversion			4
	12-Oct		No Class, Fall Break			
10	17-Oct	17	Pro forma: Optimal Holding		Mittelbach	
	19-Oct	18	Project concept	10, 11	Papke; Rabianski	
11	24-Oct	19	Market Analysis: General	12	Redfearn	5
	26-Oct		Market Analysis: Retail	17, 18	McClure	
12	31-Oct	20	Historic Rehab Credits	13,14	Alperin,	
	2-Nov	21	Historic Rehab Credits			
13	7-Nov	22	Low-Income Housing	15	WSHFC	
	9-Nov	23	No Class, ACSP Conference			
14	14-Nov	24	Low-Income Housing		McClure	6
	16-Nov	25	Low-Income Housing			
15	21-Nov	26	Low-Income Housing			
	23-Nov		No class, Thanksgiving holiday			
16	28-Nov	27	Appraisal		Jacobs; Fielder	
	30-Nov	28	Appraisal		Owens; Jud; Liteplo	7
17	5-Dec	29	Guest Speaker			
	7-Dec	30	Review			
18	8-Dec		Stop Day			
	14-Dec		Final Exam 1:30 - 4:30 am			