



VICTOR COUTURE

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OFFICE HOURS: F616, Monday before class 5-6pm or by e-mail appointment

MBA 280-1 and EWMBA280-1: REAL ESTATE INVESTMENT & MARKET ANALYSIS

Spring 2018

Course Description

The first half of the course covers the basics of what you need to know as a real estate investor before developing, acquiring, or financing a property. We start with the pro forma, which is the financial analysis of an income-producing property that the real estate industry uses to make investment decisions. We cover a number of topics related to completing the pro forma such as taxation, mortgages, leases, and valuation. We then turn to the non-financial analysis of the real estate investment decision. We consider legal and political issues related to land use and entitlement of a property, as well as economic issues related to the market drivers of demand for real estate space.

The second half of the course introduces a variety of topics related to real estate investment. First, we discuss the different forms of ownership of real estate assets. We then cover topics in real estate finance such as the underwriting real estate loans, and the sources of commercial real estate finance. We then discuss market adjustments and real estate cycles, which are a pervasive feature of the real estate business. We conclude with an overview of owner-occupied single-family housing.

The course covers various property types, including office buildings, single- and multi-family residential, industrial space, retail properties and mixed-used projects. A series of case studies and of classroom visits by industry professionals serve to illustrate key concepts covered in lectures, to build your professional network, to learn about career opportunities, and to introduce you to specialized topics.

The course has historically had success at placing students in various real-estate positions, but more broadly draws students from diverse career paths who anticipate facing real estate investment decisions. A term project gives students a way to showcase their skills when they describe their coursework in job interviews.

Course Organization

The course meets every Monday from 6:05 to 9:15pm. The lectures are held in the new building of Haas School of Business, in Chou N270. There is a 30-minute break from 7:30 to 8:00pm.

I will hold weekly office hours before class on Monday from 5-6pm. My office is in the main faculty building on the 6th floor (F616). I am happy to schedule appointment outside of office hours via email.

The GSI for this class is John Morgan (john_morgan@berkeley.edu). John will also set up a weekly office hour to meet with students.

Evaluation

Case Study Write-up: 15%. There will be three case study write-ups to submit by e-mail to John and I before the beginning of the class during which we discuss the case. I will hand in the assignment for each case write-up two weeks before the due date. The write-ups must be done in teams of four students.

Midterm exam: 25%, to be held in class on March 5th. The midterm will consist mostly of a pro forma analysis, similar to that in previous midterms for this class that I will post on bCourse.

Term project: 40%. You will create teams of four to conduct the project. If you are not in a team by February 5th, then I will choose a team for you based on your background. The objective of the project is the careful analysis of a real estate investment. You have a lot of flexibility in choosing a real estate investment for your project. The only requirement is that your project analyzes the development, acquisition, or financing of an existing property, as opposed to a hypothetical one. You are also free to conduct your project from the perspective of any investor that you choose. For instance, you can be a private equity or public REIT manager considering the acquisition of an office tower in San Francisco, or a banker underwriting a mortgage to a shopping center, or just yourselves considering an investment in a small multifamily building in Seattle. Between February 26th and March 12th, each team must set up a short meeting with me – e.g., during my office hours, during our class break - to discuss their proposed project. The graded output from the project consists of:

- 1) A five-page executive summary describing the proposed investment, summarizing the financial analysis of the project including key pro forma tables, discussing any land use issues, and including a short market analysis and an assessment of investment risk. This summary should mention all data sources used in the analysis.
- 2) A detailed excel pro forma.
- 3) A 15-minute (exact duration TBD) in-class presentation on May 7th, in front of an expert panel of three members of the Haas School Board. Every team member must participate in the in-class oral presentation of the project. The summary, pro forma, and presentation slides are due on Friday May 4th before 5pm, by e-mail to John and I.

Class Participation: 20%. Much of the learning in this course occurs in class, and it is thus important to attend every session and to participate actively, especially in case discussion. I will evaluate your participation based on both the quality and frequency of your contributions. In order to facilitate evaluation, I ask you to sit in the same general area for the duration of the semester.

Evaluation	Date Due	Percentage of Total
Case Write-up: Angus Cartwright IV	February 12 th	5%
Case Write-up: Busse Place	February 26 th	5%
Mid-term	March 5 th	25%
Case Write-up: Pier One	April 23 th	5%
Term Project	May 4 th	40%
Participation	Every Class!	20%
Total		100%

Readings and learning material

Textbook (required): Brueggeman and Fisher, *Real Estate Finance and Investments*, McGraw-Hill, 15th Edition, 2015, available at the bookstore.

Slides: I will post all lecture material on bCourse on the Wednesday prior to the lecture, in the module corresponding to each lecture.

Case Studies: We will cover five cases in class. Four of them are HBS case studies, available on Study.net (there is a link to Study.net on bCourse). The fifth case will be taught by Dennis William, and will be posted on bCourse. The cases are intended both to teach new concepts and to complement the lecture. **Pinckney Street** is an introductory case highlighting the many hurdles one has to go through to find and acquire a small income-producing property. **Angus Cartwright IV** is a classic case on the financial analysis of real estate investments. The case asks you to create pro formas for four different property investments and to consider a range of factors influencing their profitability. **Busse Place** is a case about leasing a building in difficult market conditions. The case also covers negotiations and career decisions. **AMB Consolidation** is about a private investment advisor's plan to restructure and go public as a REIT. The case describes how REITs are characterized as an investment asset, and relates the cash flow measures that are standard in real estate to the traditional measures in corporate finance. **Pier One** is about loan underwriting for the conversion of a former industrial building into an office, in an innovative location at Pier One in San Francisco. The case leads to a discussion of rapidly changing neighborhood characteristics, suboptimal configuration in a market segment, and unique tenant mix.

HBS Notes (optional): I created an additional “optional reading” package that you can purchase on Study.net. The package consists of ten “industry notes” from HBS, of about 15 pages each. You will see these notes in the detailed schedule below as “optional readings” for different lectures. You do not need to read these notes to perform well in any of the course evaluation. However, I encourage those highly motivated to succeed in the real estate business to read them. Relative to the textbook, the HBS notes have more practical applications and advice to help you make good investments.

Library Sources: Monica Singh (msingh@library.berkeley.edu), a business librarian at Haas, has created a guide to library sources for the real estate industry, available at http://guides.lib.berkeley.edu/real_estate. She also created another website with more detailed information specifically for this course: <http://guides.lib.berkeley.edu/c.php?g=457485>. Both links are available in the Asset Library on bCourse.

Software: You will need Microsoft Excel to complete the exams and the case write-ups.

Guest Lecturers: The guest lecturers will complement the lectures and provide you with exposure to accomplished professionals in the real estate industry. I will post any material that they send me on bCourse prior to the lecture. Our first guests, **Jamin Seid and Robert Basso** are co-founders of Cannae Partners. They are former students in this course, who graduated from Haas in 2003 and started an investment company together. They will give us a blow-by-blow account of their first major deal. **William Gilchrist** is the new Planning Director of Oakland. He will talk to us about the legal and political process through which real estate happens in Oakland. **Don Kuemmeler** is the founder and President of Pacific Coast Capital Partners. He will lecture about the real estate private equity business and recent PCCP deals. **Nav Athwal** is the CEO and founder of RealtyShares. He will lecture about new developments in real estate crowdfunding and about his experience building a real estate start up. **Kristin Gannon** is a Managing Director at Eastdil Secured. She will lecture about the real estate investment banking business, discuss some recent deals, and give us an update on capital markets. **Dennis William** is a senior Vice President and Managing Director at NorthMarq Capital, and he teaches a course in real estate development at Haas. He will teach the Pier One case about underwriting an office building. **Yat-Pang Au** is the CEO and founder of Veritas Investments. He will talk to us about his strategy for success in the San Francisco multi-family market.

Expert Panel for In-Class Presentation on May 7th: An expert panel will join us on May 7th to provide constructive feedback on your term projects. They will also advise me on grading these projects. All panelists are Haas alumnis, members of the Haas School Board, and real estate professionals. **Tony Chan**, BS 74 is the owner and General Partner of WorldcoCo. LLC. **Carol M. Meyer**, BS 69, MBA 71, is Chairman of Greenbriar Homes Communities. **Jerry Weintraub**, BS 80 is Founder and General Partner of Weintraub Capital Management L.P.

Detailed Syllabus and Schedule

Lecture 1: January 22nd

Slide A: Overview and Preliminaries

- Optional reading, *HBS Note: "A Note on Real Estate Research"*, available on *Study.net*.

Case Study: Pinckney Street

- Required reading, *HBS Case Study: Pinckney Street*, available on *Study.net*.
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Lecture 2: January 29th

Slide B: Introduction to Pro forma

- Required reading: *Brueggeman and Fisher, Chapter 9 (pp. 276-289) and Chapter 11 (pp. 343-366)*.
- Required reading: “*Pro forma Summary*”, available on bCourse.
- Optional reading: “*Basic Finance for Real Estate Investment Analysis*”, available on bCourse.
- Optional reading, *HBS Note: “Financial Analysis of Real Property Investments*”, available on *Study.net*.

Slide C: Taxation

- Required reading: *Brueggeman and Fisher, Chapter 11 (pp. 366 - 376)*.
 - Optional reading, *HBS Note: “Note on Taxation*”, available on *Study.net*.
 - Optional reading, *HBS Note: “Affordable Housing and Low-Income Tax Credits in the United States*”, available on *Study.net*.
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Lecture 3: February 5th

Guest Speaker: Jamin Seid and Robert Basso, Principals Cannae Partners

- Starting a real estate development company and executing on the first large deal.

Slide D: Commercial Mortgages

- Required reading: *Brueggeman and Fisher, Chapters 4*.
 - Optional reading: *Brueggeman and Fisher, Chapters 5*.
 - Optional reading, *HBS Note: “Technical Note on Financial Leverage in Real Estate*”, available on *Study.net*.
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Lecture 4: February 12th

Case Study: Angus Cartwright IV

- Required reading: *HBS Case Study: Angus Cartwright*, available on *Study.net*.
- Deliverable: *Angus Cartwright IV case write-up due*.

Slide E: Leases

- Required Reading: *Brueggeman and Fisher, Chapter 9 (pp. 264 – 276)*.
 - Optional reading: *HBS Note: “Tenant and Landlord Rights*”, available on *Study.net*.
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Lecture 5: February 26th

Case Study: Busse Place

- Required reading: *HBS Case Study: Busse Place*, available on *Study.net*.
- Deliverable: *Busse Place case write-up due*.

Slide F: Valuation

- Required reading: *Brueggeman and Fisher, Chapter 10.*
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Lecture 6: March 5th

Midterm

- Covers all material from Lecture 1 to 5.
- Bring laptop with excel to complete pro forma exercise.

Slide G: Land Use Regulation (legal and political analysis)

- Required reading : *Brueggeman and Fisher, Chapter 16 (pp. 517-526)* .
 - Required reading: *Brueggeman and Fisher, Chapter 17 (pp. 554-561)* .
 - Optional reading: *Fischel, W. (2000) "Zoning and land use regulation," in the Encyclopedia of Law and Economics, Volume II. Cheltenham: Edward Elgar, available on bCourse.*
 - Optional reading: *HBS Note: "Environmental Law in Real Estate Transactions", available on Study.net.*
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Lecture 7: March 12th

Guest Speaker: William Gilchrist, Planning Director, City of Oakland

- How to navigate legal and political hurdles in Oakland and elsewhere.

Slides H: Market Analysis (economics analysis)

- Required reading: *Brueggeman and Fisher, Chapters 9 (pp. 254-266).*
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Lecture 8: March 19th

Slides H: Market Analysis, continued

- Optional reading: *Couture, V. and Handbury J. (2017) Urban Revival in America, 2000-2010.*

Slide I: Ownership Structures (partnerships, joint ventures, private equity, REITs)

- *Brueggeman and Fisher, Chapter 18.*
 - Optional reading, *HBS Note: "Note on Forms of Real Estate Ownership", available on Study.net.*
 - Optional reading, *Darden Note: "The Basics of Private Equity Funds", available on Study.net.*
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Lecture 9: April 2nd

Guest Speaker: Don Kuemmel, Founder and President, Pacific Coast Capital Partners

- Real estate private equity and the acquisition of real estate assets.

Slide I: Ownership Structures, continued

- Brueggeman and Fisher, Chapter 21 and 23 (pp. 752-764, rest optional)
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Lecture 10: April 9th

Guest Speaker: Nav Athwal, CEO and Founder, RealtyShares

- Real estate syndication, crowdfunding and fintech.

Case Study: AMB consolidation

- Required reading: *HBS Case Study: AMB Consolidation*, available on *Study.net*.
 - **Bob Edelstein** will join me to teach this case. Bob is an emeritus professor at Haas, who taught this course in the past. He was on the board of AMB during the transition covered in the case.
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Lecture 11: April 16th

Guest speaker: Kristin Gannon, Managing Director at Eastdil Secured

- Real estate investment banking, recent deals, and capital market update.

Slide J: Topics in Real Estate Finance

- Required Reading: Brueggeman and Fisher, Chapter 12 (pp. 404-408).
 - Optional reading, *HBS Note: "Note on Commercial Real Estate Financial Market"*, available on *Study.net*.
 - Optional reading, *HBS Note: "How Institutional Investors Think About Real Estate"*, available on *Study.net*.
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Lecture 12: April 23rd

Case study: Pier One, by Dennis William, senior VP & Managing Director at NorthMarq Capital

- Required reading: *Pier One*, available on *bCourse*.
- Deliverable: *Pier One Case write-up due*.

Slide K: Real Estate Market Adjustments and Cycles

- Required Reading: Glaeser, E. (2013) "A Nation of Gamblers: Real Estate Speculation and American History", *American Economic Review: Papers and Proceedings*, 103(3), 1-42 (A shorter and simpler version of the paper is also available on *bCourse*.)
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Lecture 13: April 30th

Guest speaker: Yat-Pang Au, Founder and CEO of Veritas investment

- Origin story of Veritas and strategy for success in San Francisco multifamily market.

Slide L: Single Family Housing

- Required Reading: *Brueggeman and Fisher, Chapters 7.*
 - Optional Reading: *Brueggeman and Fisher, Chapters 8.*
 - Optional Reading: Gyourko, J. (2007) "Urban housing markets," manuscript, on bCourse.
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Lecture 14: May 7th

Presentations in Class

Expert Panel:

Tony Chan, BS 74, Owner and General Partner of WorldcoCo. LLC.

Carol M. Meyer, BS 69, MBA 71, is Chairman of Greenbriar Homes Communities.

Jerry Weintraub, BS 80 is Founder and General Partner of Weintraub Capital Management L.P.
