

**NORTHWESTERN UNIVERSITY
Kellogg School of Management**

**Real Estate Finance and Investments
FINC 454**

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**Course Syllabus – Winter 2019
Wednesdays, 6:00 PM – 9:00 PM**

Course Description

This course is an introduction to the most fundamental concepts, principles, analytical methods and tools useful for making investment and finance decisions regarding commercial real estate assets. We begin the course by considering investment in fully operational income properties. Later, the course takes a close look at real estate capital structure and operating companies. The course concludes with an examination of commercial real estate financing, with an emphasis on public and private mortgage markets. We will study commercial real estate using the tools and framework of modern corporate finance and investments, while focusing on the institutional features unique to the real estate industry. The course provides the intuitive and analytical underpinnings of property valuation, deal structuring, and debt pricing. As such, it is useful for students with industry experience as well as students without a real estate background who may be interested in learning more about real estate as an asset class or those who are contemplating making future real estate investments, both personally and professionally.

Prerequisites

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, the course requires a thorough understanding of finance principles at the level taught in FINC-430. *The core finance course may not be taken concurrently without special permission from Professor Nathanson.*

Course Readings

1. The textbook for the course is *Commercial Real Estate Analysis & Investments*, by David M. Geltner, Norman G. Miller, Jim Clayton, and Piet Eichholtz. 3rd Edition.

The textbook will be the primary source for much of the institutional detail presented in the course. I *strongly recommend* purchasing the textbook. In my view, it is the best available text in this field and contains a lot of background information that students interested in real estate may find useful beyond this class. Do not buy the 2nd edition of the text. It contains errors that will inhibit your ability to succeed in this class.

2. Lecture slides, cases, and readings as assigned. Lecture slides and readings will be posted on the course website. Cases will be distributed via study.net, which you may access through Canvas.

Grading

Your grade in the course will be based on the maximum of the following:

- 15% three individual homework assignments, 20% four group case studies, 20% midterm, 30% final, 5% peer review, 10% class participation.
- 15% three individual homework assignments, 20% four group case studies, 0% midterm, 50% final, 5% peer review, 10% class participation.

As indicated above, there are six components to your course grade.

1. **Individual homework:** There are three traditional homework assignments to be completed individually. You are to complete each assignment and submit your answers in the form of a single PDF file, which must be submitted on Canvas on or before **5:00 PM** on the day it is due. Assignments submitted after this time will not be graded and will receive zero credit. Solutions to the homework assignments will be posted to the website.
2. **Group Case Studies:** There are four case studies. For these case studies, you will choose study groups of three or four people. Each group **MUST** email me the list of students in the group before the beginning of the second class (January 16, 5:00 PM deadline). Discussions of the cases will take place during class, but no “solutions” will be provided. For each case, students must upload a single PDF file to Canvas as well as answer questions posted on Canvas on or before **5:00 PM** on the day they are due.
3. **Midterm Exam:** There will be an in-class midterm exam the second half of class (7:30 PM start) on Wednesday, February 13 covering the course up to and including the Wildcat case. The midterm is **closed** book and note (you cannot use any resources on the exam other than a pen/pencil). Completing the midterm exam is *optional*, and as a result, there will be no rescheduling of the midterm exam.
4. **Final Exam:** The mandatory final exam is given during week 11 (March 20) at the same time and place as the class meets. The final exam is cumulative. As with the midterm, the final is **closed** book and note.
5. **Peer review:** No later than Monday, March 18, all students must complete a peer review, where you will be asked to evaluate the contribution made by each of your group members with respect to the completion of the case studies. Students that do not complete the peer review *on time* will receive no credit for the peer review component of their own grade.
6. **Participation self-evaluation:** No later than Monday, March 18, all students must complete a participation self-assessment where you will be asked to evaluate your class participation according to the guidelines listed below. Students that do not complete the participation self-assessment *on time* will receive no credit for the class participation component of their own grade. I have very specific expectations regarding class participation, and I evaluate such participation formally according to the following guidelines. To qualify for a participation grade other than “C”, you must satisfy or exceed **ALL** of the listed characteristics for the given grade. To facilitate my evaluation of your participation, I will be using a seating chart based on where you sit at the start of class 2.

Participation Grade	Characteristics
A	Missing from or arriving late to no more than 1 lecture. When missing a class or arriving late, you always notified me in advance. Regularly volunteered comments or asked questions that <i>other students found valuable</i> . In response to being called upon, always demonstrated preparedness. Always used name-card.
A-	Missing from or arriving late to no more than 2 lectures. When missing a class or arriving late, you always notified me in advance. Regularly volunteered comments or asked questions that <i>other students found valuable</i> . In response to being called upon, always demonstrated preparedness. Always used name-card.
B+	Missing from or arriving late to no more than 3 lectures. When missing a class or arriving late, you always notified me in advance. Often volunteered comments or asked questions that <i>other students found valuable</i> . In response to being called upon, generally demonstrated preparedness. Always used name-card.
B	Missing from or arriving late to no more than 3 lectures. When missing a class or arriving late, you sometimes failed to notify me in advance. Occasionally volunteered comments or asked questions that <i>other students found valuable</i> . In response to being called upon, generally demonstrated preparedness.
B-	Missing from or arriving late to no more than 3 lectures. When missing a class or arriving late, you sometimes failed to notify me in advance. Infrequently volunteered comments or asked questions that <i>other students found valuable</i> . In response to being called upon, sometimes demonstrated lack of preparedness.
C	Missing from or arriving late to 4 or more lectures. Never volunteered comments or asked questions that other students found valuable. In response to being called upon, demonstrated lack of preparedness.
F	Missing from or arriving late to 4 or more lectures. Never volunteered comments or asked questions that other students found valuable. In response to being called upon, demonstrated lack of preparedness. Occasionally disruptive to the learning environment of others.

Additional rules regarding assignment submissions

- *Late submissions will receive no credit.* Deadlines for this class are non-negotiable. If you have a question about a deadline, you should resolve your question sufficiently prior to the deadline so that you can complete the assignment by the due date.
- *Only PDF files can be uploaded into Canvas.* In the past, there have been issues with formatting and tables working well when being submitted electronically. For this reason, I have changed to settings in Canvas to only allow PDF file uploads. This means that I will not be collecting excel spreadsheets. Although homework and case submissions may include cells from a spreadsheet, handing in an excel spreadsheet is not considered a sufficient answer, and I will take points off even if the numeric answer is correct. It should be clear to me (or your intended audience after Kellogg) both what your answer is and how you arrived at it. Finance is partially an exercise in math and numbers, but it is also an exercise in communication. I should understand your numerical answer, your logic and methods, and why the numbers lead to your conclusion.
- *All students within a study group will receive identical scores on group case submissions.* Responsibility for submitting the desired answers by the deadline is the joint responsibility of the entire group, regardless of how the group determines the allocation of the work.

Questions about assignments or lectures

I expect you to ask your fellow students first any questions concerning assignments or lecture notes. If your classmates cannot answer your question, then post it on the discussion board on Canvas. I will post my response by the next business day, and in practice, my responses are typically much quicker than that. Students are welcome to post replies where applicable. *If you email me with questions about assignments or the lecture notes, I will simply instruct you to post the question on Canvas.* If you would like to speak with me confidentially about a course-related matter, you may make an appointment for office hours by emailing me at nathanson@kellogg.northwestern.edu.

Classroom Etiquette

As you know, Kellogg has established a series of guidelines to make sure that the classroom environment enhances the learning experience for all students. Please take the time to familiarize yourself with the revised Classroom Etiquette code.

http://www.kellogg.northwestern.edu/stu_aff/policies/etiquette.htm

In particular:

1. I expect you to attend every class. If you are unable to attend for an unavoidable reason, you must notify me in advance. There is material discussed in class that is not found elsewhere. Students missing class are expected to speak with classmates about material that was missed. *I do not allow use of Ketchup or any other recording devices.*
2. I expect you to be ready to begin class on time.
3. I expect you to stay for the entire class.
4. Cell phones should be put away and silenced. You may not use electronic devices for non-class purposes (i.e. email, web-surfing) during class.

Honor Code

The first sentence of the Kellogg Honor code reads: "All students enrolled in a course offered by the Kellogg School of Management agree to abide by the Kellogg Honor Code." If you are unsure of what this means, please read the honor code. You can find it at:

http://www.kellogg.northwestern.edu/stu_aff/policies/honorcode.htm. If you are in doubt about whether something is acceptable under the honor code, please do not hesitate to ask me.

In particular, the following are considered honor code violations:

1. Consulting materials distributed in any past Kellogg real estate finance course.
2. Sharing course materials with anyone at any time. See below.
3. In future quarters, discussing any course assignment with students then enrolled in a Kellogg real estate finance class before those students' due date.
4. Seeking or receiving any assistance with the midterm or the final exam.

Access to Course Information via the Web

Lecture slides, assignments, and course readings will be available on the course Canvas page. Grades will be entered into the electronic gradebook.

Other

All course materials are the intellectual property of the instructor. You may not distribute class materials electronically or in any form to anyone – inside or outside of Kellogg. In particular, you may not share course materials with other students or with your employers after graduating from Kellogg.

Course Outline

This is an approximate schedule of topics to be covered. We may move faster or slower than indicated. Numbers listed under “Readings” refer to chapters from the 3rd edition text. All readings should be completed prior to class. Regardless of the realized pace of the class, the exam and assignment dates will not change.

Date	Class	Topic	Textbook/Case Readings	Case Due	Homework Due
Wednesday, January 9	1	Course introduction Cash flows	30, 17.1		
Wednesday, January 16	2	Property-level valuation and returns Equity-level valuation and returns	Case: Golden Opportunity 10.1 – 10.5, 11 14 (from start through 14.3.2)		HW 1 and case group signup
Wednesday, January 23	3	Case discussion In-class exercise: Property valuation from A to Z	Bring laptops to class	Golden Opportunity	
Wednesday, January 30	4	Tax deferral strategies Real estate private equity Real estate capital structure	15.3 Case: Wildcat Capital Investors 13, 15.1-15.2		HW 2
Wednesday, February 6	5	Case discussion Real estate companies	12.3, 23	Wildcat Capital Investors	
Wednesday, February 13	6	Mortgage investments	16, 17.2, 18		
Wednesday, February 13	6	IN-CLASS MIDTERM EXAM (7:30 PM start)			
Wednesday, February 20	7	Mortgage investments, continued	Case: Working at Workouts		HW 3
Wednesday, February 27	8	Mortgage investments, continued Case discussion		Working at Workouts	
Wednesday, March 6	9	Mortgage securities In-class exercise: Securitization from A to Z	20 Case: The Return of the Loan Bring laptops to class		
Wednesday, March 13	10	Case discussion Mortgage securities, continued		The Return of the Loan	
Monday, March 18	PEER REVIEW AND PARTICIPATION SELF-EVALUATION DUE				
Wednesday, March 20	11	IN CLASS FINAL EXAM			