

Syllabus and Readings

Planning 251

REAL ESTATE INVESTMENT ANALYSIS AND AFFORDABLE HOUSING

Spring 2005

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Instructors

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Class Schedule and Location: Monday and Wednesdays 2:00 to 3:15 PM
New East 102

Description

Real Estate Investment and Affordable Housing is designed to teach the fundamentals of real estate finance investment analysis with a focus (though not exclusively) on meeting the housing needs of low and moderate income households. Financing and development of affordable housing through public, private and non-profit partnerships will be explored. The course has four objectives:

- Achieve a solid grounding in the fundamentals of the real estate development process, real estate investment analysis including cash flow and rate of return analysis and the fundamentals of taxation of residential real property.
- Gain an understanding of the basic types of private and public sector real estate financing resources (development, construction and permanent financing) available for both rental and homeownership developments; learn conventional underwriting guidelines for such lending.
- Apply the techniques of real estate investment analysis to a wide range of housing development models, policy and program circumstances; determine financing gaps in capital funding or operating cash flow and optimum approaches to address such gaps.
- Master the financial structuring and sale of real estate investments which feature low income tax credits and historic rehabilitation tax credits using limited partnerships and limited liability corporations.

Course Format

The first half of the semester will focus on basic real estate investment analysis techniques with an emphasis on problem solving through spreadsheet analysis using Excel. The later half of the class will be devoted to case studies augmented by lectures presented by practitioners of affordable housing in the private for-profit, non-profit and government sectors.

Readings and Case Assignments

The readings and case assignments are set forth in the attached syllabus. Primary references used are:

William Brueggeman and Jeffrey Fisher, Real Estate Finance and Investments, (eleventh edition), Homewood IL, Richard D. Irwin, 2001.

Herbert Stevens and Thomas Tracy, A Developer's Guide to the Low Income Housing Tax Credit, Washington DC, National Council of State Housing Agencies, 1994.

Bennett L. Hecht, Developing Affordable Housing: A Practical Guide for Non-Profit Organizations, New York, NY, John Wiley and Sons, 1999.

Students are encouraged to purchase the Brueggeman text at Student Stores. The Stevens and Hecht books as well as other readings will be placed on reserve in the Planning library. Required readings from the Stevens and Hecht books are in the course pack.

Case studies will be made available during the semester.

Additional Recommended Readings:

The following readings are optional, but are highly interesting and relevant to the

course. In addition, those of you seeking real estate related internships may find the information in these articles useful as you conduct your job search:

“America’s Real Estate Megatrends for the Decade”, by Lend Lease Real Estate Investments

“Emerging Trends in Real Estate: 2005” prepared by Urban Land Institute and PricewaterhouseCoopers

“US Market Outlook – 3rd Quarter 2004”, Prudential Real Estate Investors (US)

“Real Estate Fall 2004 Outlook”, Cushman & Wakefield

Note: Syllabus changes will occur depending on the availability of guest lecturers.

Grading

Grades will be based upon written assignments, case study presentations, class participation and a final exam. Relative weights are

Problem sets	20%
Class exam	20%
Case studies	45%
Case presentations	5%
Class participation	10%

Teams for all cases will be determined by random draw. New teams will be established for each case study.

Summary of Case Studies

Case 1: Parkworth: New Homeownership Opportunities in the Inner City (two parts)
In the first part of this case study, students will prepare a development budget for a 24 unit single-family inner-city affordable homeownership development. The second part of the case involves the estimation of first mortgage and subordinate gap financing that will be required to assist lower income homebuyers. Students will be required to prepare their underwriting template using spreadsheet analysis.

Case 2: Parkview Manor: The Halifax Court HOPE VI Redevelopment. In this case students will learn the basics of the Low Income Housing Tax Credits and the practice of syndication. Students will be encouraged to create a multi-faceted pro forma to help understand the relationship between the investor the developer and the syndicator. The end product will show the how the tax credits work for all parties

including those individuals to whom they provide safe, decent, and affordable housing.

Case 3: Mount Olive Apartments: The Rehabilitation of Mount Olive Schools. This case study deals with the redevelopment of an old school building in Mount Olive, North Carolina. Students will again work with Low Income Housing Tax Credits and tax credit syndication but will also be introduced to the federal and state Historic Rehabilitation Tax Credits. Students will combine equity from tax credit syndication with other equity sources to convert the school into affordable apartments. This case study will build on the spreadsheet skills students gain in the first two case studies.

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Course Syllabus

January 12 - Wednesday

Overview of Course and Student Responsibilities

January 17, Monday

No class—Martin Luther King Holiday

January 19, Wednesday

Brueggeman, Chapter 1, "Introduction," and Chapter 2, "Legal Considerations."
Hecht, Chapter 2, "The Real Estate Development Process For Non Profit Organizations," pp. 13-16, and Chapter 3, "Establishing the Development Team," pp. 17-28.

January 24 - Monday

Brueggeman, Chapter 3, "The Interest Factor in Financing."

Introduction to spreadsheet and formulas (MS Excel).

January 26 - Wednesday

Brueggeman Chapter 4, "Fixed Rate Mortgage Loans," and
Chapter 5, "Adjustable Rate and Variable Payment Mortgages," pp. 123-126.
Spreadsheets and formulas.

January 31 - Monday

Brueggeman, Chapter 6, "Underwriting and Financing Residential Properties," pp. 145-175.

Introduction to Case 1: Parkworth: New Homeownership Opportunities in the Inner City

Problems set #1 due: Brueggeman, pp. 77-78, #s 1, 2, 5, 6, 7, 10, 12, 13;

February 2 – Wednesday

Brueggeman, Chapter 15, "Financing Project Development."
Hecht, Chapter 4, "Project Feasibility and Total Development Costs," pp. 31-56.
D. Hartzell and G. Sandreuter, "The Construction Financing Process"

Guest speaker: Financing construction projects

February 7 - Monday

Brueggeman, Chapter 7, "Residential Financial Analysis."

February 9 - Wednesday

In class lab

February 14 - Monday

Case study # 1, Part 1 draft due;

In class lab

February 16 - Wednesday

Case study #1, Part 1 & 2 due – Student presentations

Guest Speaker: Chris Estes, NCLHC (former DCRP Alum)

February 21 - Monday

Brueggeman, Chapter 8, "Introduction to Income Producing Properties and Valuation Fundamentals."

February 23 - Wednesday

Brueggeman, Chapter 10, "Investment and Risk Analysis."

February 28 - Monday

(Skim through these readings as necessary)

Tax Credit Guide, Introduction, Chapter 1, "How Developers Can Use the Tax Credit," pp. 1-12, Chapter 2 "How Much Credit Can You Obtain for Your Property," pp. 13-69, and Chapter 3, "How to Apply For Credit," pp. 71-95. Housing Developments Reporter (HDR). Low Income Housing Tax Credits. Read through Case Study 2: Parkview Manor (Good Background on Tax Credits)
Optional lab (computer room)

March 2 - Wednesday

Brueggeman, Chapter 11, "Financial Leverage and Financing Alternatives."

Introduction to Case Study 2: Parkview Manor

Problems set #2 due: Brueggeman, pp. 330-331, #2, #3; and #6.

March 7 - Monday

Brueggeman, Chapter 12, "Partnerships, Joint Ventures and Syndications."

Investment Term Sheet (2 pages).

March 9 - Wednesday

Hecht, Chapter 5, "Determining Projected Income and Expenses," and Chapter 9, "Sources of Capital: Equity," pp. 220-236. *Tax Credit Guide*, Chapter 4 "Forming the Limited Partnership" pp. 97-111; Chapter 5, "Marketing the Tax Credit - Investor Considerations," pp. 113-138.

March 14 - Monday

Spring break

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March 16 - Wednesday
Spring break

March 21 - Monday
In class lab

March 23 – Wednesday
In class lab

March 28 - Monday
Case Study #2 Due - Student Presentations
Guest Panel from CAHEC (Johan Graham, former DCRP Alum)

March 30 – Wednesday
Brueggeman, Chapter 9, “Introduction to Leases, Projecting Cash Flows, and Investment Value.”
Wrap-up of Parkview Manor

April 4 - Monday
Introduction to class exam (feasibility study - David Hartzell, Kenan Flagler Business School. Real Estate Investment Analysis.)
Brueggeman, Chapter 16, “Financing Land Development Projects.”

April 6 – Wednesday
Brueggeman, Chapter 16, “Financing Land Development Projects,” pp. 475-94.
Community Land Trust Handbook. Chapter 2, “The Community Land Trust Model,” pp. 18-35.

April 11 – Monday
Brueggeman, Chapter 17, “The Secondary Mortgage Market: Pass-Through Securities.”
Brueggeman, Chapter 18, “The Secondary Market: CMOs and Derivative Securities.”
Brueggeman, Chapter 19, “Real Estate Investment Trusts (REITS).” – *Just Skim*

April 13 - Wednesday
Introduction to Case Study #3
Hecht, Chapter 11, “Enhancing the Feasibility of an Affordable Housing Project,” pp. 269-310.
Hecht, Chapter 8, “Sources of Capital: Grants,” pp. 204-219.
Exam Due

April 18 - Monday
Guest speaker: NCHFA

April 20 – Wednesday

Low Income Housing Tax Credit Compliance (CAHEC documents), Bratt et al. “Confronting the Management Challenge: Affordable Housing in The NonProfit Sector, Executive Summary,” p. 1-20. “Tax Credit Guide,” Chapter 6, Project Management, pp. 139-157. Hecht, Chapter 19, “The Project Completion Phase,” pp. 599-674.

Foong, L Keat. “Revival of Historic Tax Credits” (found in back of reserved readings binder under Case Study #3).

April 25 – Monday

In class lab

April 27 – Wednesday

Last Day of Class

Case study #3 due – Student presentations