California State University, Sacramento
College of Business Administration

MBA 251: Real Estate Finance and Investments
Spring 2014 Syllabus

General Information
Instructor: Nuriddin Ikromov, PhD
Office: Tahoe 2019
Phone: (916) 278-7199
Email: Please use only the SacCT messaging system (and not the regular xyz@csus.edu email) for course-related communication
Office hours: Mon 11:30 am – 2:30 pm or by appointment
Class time: Wed 6:00 – 8:50 pm
Class location: Tahoe 1026

1. Course Description
Concepts and methods used to analyze equity investment in income-producing properties such as apartments, office buildings, and retail. Topics include market analysis, leasing and property income streams, financial structuring, taxation of real estate operations and transactions and on the theory and methods used to assess the performance of individual real estate project; alternative ownership structures, recent innovations in real estate capital markets, material on regulatory restrictions, taxation, and on mixed assets portfolio analysis. Use of computer models for investment decision-making. 3 units.

2. General Objective
To provide the student with an understanding of real estate finance and investment at a level of competency and sophistication appropriate for a graduate student.

3. Course Requirements
Lectures
Lectures and text supplement each other. Although the text and the lectures may contain some overlapping material, they are not intended to be substitutes. Therefore, you should both read the text and attend the class regularly. In order to obtain the greatest benefit from the lectures, you should read the assigned material prior to class.

I expect everyone to participate in class discussions. I will encourage class participation, although there is no penalty for not actively participating in class discussions.

The structure of the course requires significant individual study and preparation outside of class. Each class session will cover major points and concepts contained in the text and readings as well as material not contained in the text. You should not consider the class lectures and discussions to be the entirety of the course. Class sessions are designed as an aid to your individual learning, development, and mastery of the subject matter. In order to obtain the greatest benefit from the lectures, you should read the assigned material prior to class.

Please remember to turn your cell phones off during class time.
4. Course Materials

Text

Supplemental materials
Additional materials will be posted on the course page in SacCT throughout the semester. These include problem sets and solutions, articles, and spreadsheets related to the course material. I will also use SacCT to make announcements about any changes in exam dates, project due dates, etc. It is your responsibility to keep up-to-date with all announcements.

The problem sets are intended to help you master the course material, as well as to prepare you for the exams. Please keep in mind that the problems are challenging and time-consuming. Don’t leave it until the last day to work on the problems. The questions in the exams will be similar to, although generally easier than, problem sets. The problem sets will not be graded. Suggested solution will be uploaded to the course page at least two weeks prior to exams.

Financial Calculator
You must have a financial or programmable calculator that can compute annuities/present values and IRRs. TI BAII+ and HP 1-B are inexpensive options, although TI 83 or a later model may be easier to use. It is your responsibility to learn how to use your calculator. Personally I use TI 83, so I can help if you need help with that particular model. However, if you have a different model, you need to know how or learn to use it. You must bring your calculator to every class and exam.

5. Exams

The exams contain short-essay questions (accounting for approximately 40% of the exam score) and problems (approximately 60% of the exam score) and will be conducted in the classroom. The exam questions will be drawn from the text and other reading assignments, lectures, problems sets and class discussions. Please see the “Course Schedule” section of this syllabus for the topics covered in the exams.

Neither of the exam grades will be dropped. If you miss the first exam, because of documented medical or work-related circumstances, you can take a make-up within six days from the date of the exam. In fairness to others, the make-up exam will be at least as difficult as the actual midterms. Exam 2 is comprehensive and cumulative.

You may bring half a page (8 inch by 6 inch) “cheat sheet” to exams. You may write anything, including formulas, definitions, etc. on either side of the page. You are allowed to use your calculators during the exam. You may not use laptop computers, cell phones, or PDAs.

I reserve the right to curve the exam grades as I see necessary.
6. Attendance
Attendance is NOT a part of the course grade. However, attending class and participation in discussions enhances the classroom experience and is expected. In addition, there may be changes in the class schedule and these will be announced in class. I expect you to attend class so that you may stay up-to-date with any changes in the schedule. Finally, it is in your interest to attend class because it helps your learn better. Experience suggests that regular attendance and performance are strongly correlated.

I expect everyone to come to class in time and stay until the end. If you are compelled to come in late or leave early, please do so with minimum noise and distraction.

If you miss class for any reason, please do not feel obliged to let me know by email or in person, or ask me if I will cover “anything important”. If you miss a class session, you should check the course schedule, announcements and emails, and SacCT for the material covered during that session.

7. Consulting Report and Group Work
The consulting report is intended to provide you with practical experience in applying the concepts learned in class, with an emphasis on using Microsoft Excel or alternative tools. See Appendix A for the discussion of the consulting report. We will also discuss the report in class throughout the semester.

The consulting report can take many hours to complete. Therefore, you should give yourselves plenty of time to finish and submit your work before the deadline. You will work on the consulting report either individually or in groups of two or three. The group lists are due by SacCT email on February 12. If you decide to work on the report by yourself, please send me an email saying so. If you decide to work in a group, a representative of the group should send me an email with the name of the group (optional) and the list of students in that group (required) by 6:00 pm on February 12.

Part of education, in college and elsewhere, is learning to work in groups. Therefore I hope you can work in cooperation within your chosen groups and that everyone makes a fair contribution. I will assume that everyone is pulling their weight and will assign the same grade to each member of a group unless I hear complaints (although I hope this won’t happen). If some group members are unhappy with a peer’s contribution, I will offer an evaluation form to address these concerns later in the semester.

8. Extra Credit
There will be a number of opportunities throughout the semester to earn extra credit through various assignments, surveys, and classroom activities. These extra credit assignments and activities will supplement the course material and help you engage in some key concepts of finance in depth. I will announce them in class as the semester progresses, and also post them to the course page on SacCT.

In addition to the extra credit assignments to be offered throughout the semester, students who earn a grade of at least C- (at least 70%) without any extra credit are eligible for up to 3% of the final grade in extra credit. In other words, if you are failing the course, you can’t pass with this extra credit. In order to earn this extra credit, you can submit up to 3 summaries of finance-related articles appearing in publications listed in the requirements for article summaries in Appendix B. Every article that satisfies these requirements will earn you 1 percentage point in final grade. I will not accept more than 3 article summaries from a student. Article summaries must be submitted before or on May 7. You must submit your article summaries electronically, in the Assignments/Extra credit section of the course page in SacCT. Simply upload a Word or PDF file to SacCT before the deadline. Please post all your summaries in one “attemtp”. You can attach multiple files with one attempt. Please see Appendix B for the detailed requirements for extra credit article summaries.
9. Grading: Weights
Your final grade for the course will be determined based on your performance in the 2 exams and the consulting report (and possibly extra credits you may earn). The assigned weights and tentative dates for the exams and assignments are:

<table>
<thead>
<tr>
<th>Assignment</th>
<th>Weight</th>
<th>Date/Due Date</th>
<th>Types of Questions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exam 1</td>
<td>30%</td>
<td>March 19</td>
<td>Essays and problems</td>
</tr>
<tr>
<td>Exam 2</td>
<td>30%</td>
<td>May 7</td>
<td>Essays and problems</td>
</tr>
<tr>
<td>Consulting Report – First Draft (Optional)</td>
<td>30%</td>
<td>April 23</td>
<td></td>
</tr>
<tr>
<td>Consulting Report – Final Draft</td>
<td>30%</td>
<td>May 7</td>
<td>See Appendix A</td>
</tr>
<tr>
<td>Consulting Report Presentation</td>
<td>10%</td>
<td>May 14</td>
<td>See Appendix A</td>
</tr>
<tr>
<td>Extra Credit</td>
<td>Up to 5%</td>
<td>May 7</td>
<td></td>
</tr>
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10. Grading Scale
The grades will be assigned according to the following scale:

<table>
<thead>
<tr>
<th>Grade</th>
<th>Points</th>
<th>Grade points</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>94.00 – 100.00</td>
<td>4.0</td>
</tr>
<tr>
<td>A -</td>
<td>90.00 – 93.99</td>
<td>3.7</td>
</tr>
<tr>
<td>B +</td>
<td>87.00 – 89.99</td>
<td>3.3</td>
</tr>
<tr>
<td>B</td>
<td>83.00 – 86.99</td>
<td>3.0</td>
</tr>
<tr>
<td>B -</td>
<td>80.00 – 82.99</td>
<td>2.7</td>
</tr>
<tr>
<td>C +</td>
<td>77.00 – 79.99</td>
<td>2.3</td>
</tr>
<tr>
<td>C</td>
<td>73.00 – 76.99</td>
<td>2.0</td>
</tr>
<tr>
<td>C -</td>
<td>70.00 – 72.99</td>
<td>1.7</td>
</tr>
<tr>
<td>D +</td>
<td>67.00 – 69.99</td>
<td>1.3</td>
</tr>
<tr>
<td>D</td>
<td>63.00 – 66.99</td>
<td>1.0</td>
</tr>
<tr>
<td>D -</td>
<td>60.00 – 62.99</td>
<td>0.7</td>
</tr>
<tr>
<td>F</td>
<td>0.00 – 59.99</td>
<td>0.0</td>
</tr>
</tbody>
</table>
### 11. Tentative Course Schedule

This is a general plan for the course. There may be some adjustments as the semester progresses.

<table>
<thead>
<tr>
<th>Date(s)</th>
<th>Topic / Assignment Due</th>
<th>Readings/Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan 29</td>
<td>A. Introduction and Review of Basic Concepts</td>
<td>Text Chapters 1, 2, and 3</td>
</tr>
<tr>
<td>Feb 5, 12</td>
<td>B. Financing Residential Properties</td>
<td>Text Chapters 4, 5, and 8</td>
</tr>
<tr>
<td>Feb 12</td>
<td><em>Group Lists due – send your lists to me by SacCT</em></td>
<td></td>
</tr>
<tr>
<td>Feb 19, 26</td>
<td>C. Borrower Choices</td>
<td>Text Chapters 6 and 7</td>
</tr>
<tr>
<td>Mar 5</td>
<td>Problem solving and exam review</td>
<td>Problem set 1</td>
</tr>
<tr>
<td>Mar 12, Apr 2</td>
<td>D. Financial Analysis of Income Producing Properties</td>
<td>Text Chapters 9, 10, 11, and 14</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Asset valuation and trading game (in class)</td>
</tr>
<tr>
<td>Mar 19</td>
<td>EXAM 1: in class</td>
<td>Topics: A, B, C</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Problem Set 1 covers topics A, B, and C</td>
</tr>
<tr>
<td>Mar 19</td>
<td>*Property Choice Due</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(Email me by SacCT the address and a brief description of the property)</td>
<td></td>
</tr>
<tr>
<td>Mar 26</td>
<td>Spring break – No class</td>
<td></td>
</tr>
<tr>
<td>Apr 9, 16</td>
<td>E. Financial Leverage and Financing Alternatives</td>
<td>Text Chapters 12 and 13</td>
</tr>
<tr>
<td>Apr 23</td>
<td>F. Corporate Real Estate (time permitting)</td>
<td>Text Chapter 15</td>
</tr>
<tr>
<td>Apr 23</td>
<td>Consulting Report First Draft Due (optional)</td>
<td></td>
</tr>
<tr>
<td>Apr 30</td>
<td>Problem solving and exam review</td>
<td>Problem sets 2 and 3</td>
</tr>
<tr>
<td>May 7</td>
<td>EXAM 2: in class</td>
<td>Comprehensive and Cumulative Problem Sets 2 and 3 cover topics D, E, and F</td>
</tr>
<tr>
<td>May 7</td>
<td>Consulting Report Final Draft Due (Submit hard copy of the report)</td>
<td></td>
</tr>
<tr>
<td>May 7</td>
<td>Extra Credit Articles &amp; Summaries Due</td>
<td></td>
</tr>
<tr>
<td>May 14</td>
<td>Consulting Report Presentations (Submit electronic copies of the report and slides)</td>
<td></td>
</tr>
</tbody>
</table>
### 12. Optional readings

Optional readings are available in the “Supplemental Materials” section of the course page in SacCT. These articles and Excel spreadsheets complement the chapters from the textbook and add to your understanding of the relevant topics. The optional reading materials are listed by topic below:

<table>
<thead>
<tr>
<th>Topic</th>
<th>Article/File</th>
</tr>
</thead>
</table>
| A. Introduction and Review of Basic Concepts | California Deed of Trust  
“$430 for Air”  
“Pilgrims turkey of an Idea”  
“Time Really is Money” |
| B. Financing Residential Properties        | “Adjustable Rate Mortgages”  
“ARMs gain as FRMs climb”  
“Foreclosures May Jump as ARMs Reset”  
Graduated Payment Mortgage  
Good faith estimate example  
“Anatomy of a Credit Score”  
Underwriting ratios |
| C. Borrower Choices                        | “Bubbles”  
“The Trillion Dollar Bet”  
“Bubble Trouble”  
“Don’t Fear the Bubble that Bursts”  
“What’s that Hissing Sound – America’s Housing Bubble”  
“Cost of Owning vs. Renting”  
“Do Renters Miss the Boat”  
“Home Improvements that Really Pay off”  
“For Some Renting Makes Sense” |
| D. Financial Analysis of Income Producing Properties | Income approach  
“Myths of Real Estate”  
Effective rent example |
| E. Financial Leverage and Financing Alternatives | Financial Leverage  
Loan Alternatives |
| F. Corporate Real Estate                   |                                                                            |
| G. Financing Proposed Projects             |                                                                            |
| H. General                                 | CS Home Price History  
Figure 2.1  
Excel Templates |
Discussion of Exams/Grades
It is your (student’s) responsibility to verify any grade you receive. Sometimes there may be mistakes in writing and/or grading the exams (hopefully this won’t happen often). I also believe that taking an exam is one way to learn. Therefore, I will typically discuss each exam, except the final, in the first class after the grades are posted. If you think there is a problem with a specific question (worded awkwardly, “correct” answer is actually incorrect, etc), then feel free to bring it up in class. However, if you think your exam was not graded correctly, please come to my office hours. You should review your exam grades within a week of posting.

Special Grades
‘I’ (Incomplete): I will not assign an “incomplete” unless the requirements and conditions of the university for that designation are met. Incompletes are not routinely assigned if you don’t come to exams or are slow in getting work done. You must present me with substantial and compelling documentation that persuades me that your case meets the requirements for assignment of incomplete. You must also present to me, at the same time, a clear and coherent plan and timeline for completion of the course which will function as a starting point for negotiation of a joint plan for course completion.

‘WU’ (Unauthorized Withdrawal): This grade is only considered for students who have not participated in the course after the fourth week of the course.

Cheating
Cheating includes, but is not limited to, use of unauthorized material during an exam or in the preparation of any outside assignment, looking at another student’s exam answers, allowing another student to look at your own exam answers, requesting or providing information during an exam, and collaboration on assignments that must be completed on an individual basis for a grade. The minimum penalty for cheating is a grade of “F” for the course. In addition, the student will also be reported to the University.
Read the University policy statement on academic honesty online at: http://www.csus.edu/umanual/AcademicHonestyPolicyandProcedures.htm.

Students with Disabilities
If you have a disability and require accommodations, you need to provide disability documentation to Services for Students with Disabilities (SSWD), Lassen Hall 1008, (916) 278-6955. Please discuss your accommodations with me, privately, after class or during my office hours early in the semester.
APPENDIX A: The Financial and Investment Consulting Report

The ABC Financial and Investment Group was formed in 2000 and has been advising major real estate investors in California. One of ABC’s partners holds a graduate degree in Urban Land Development from CSUS. She is familiar with the Sacramento Metropolitan area and believes it to be a good opportunity for real estate investments. Thus, she proposed that ABC looks at the Sacramento area for real estate investments. ABC gave her the go ahead, so she contacted your consulting group to find an appropriate investment property to present to the ABC investment committee. ABC is particularly interested in office and retail buildings.

Your (group’s) assignment is to find an investment property that is for sale and prepare a detailed analysis of the property with recommendations. You realize that the effort put forth in developing a quality product will pay off handsomely.

Since Fall 2010, the College of Business Administration at Sacramento State has been partnering with CoStar Group, which is the largest commercial real estate information company in the United States. Through this arrangement, the students in this class will have access to the database of commercial properties in the Sacramento market. You will be able to choose a property for the project from the CoStar database (http://www.costar.com/). Sometime early in the semester (after the roster has been finalized), I will get access codes to the database for each of you. More information on this will be forthcoming in due time.

The Consulting Report
1) The report is divided into the following sections:
   a) Executive summary (optional)
   b) Location analysis and property description.
   c) Market analysis.
   d) Financial feasibility analysis. Tax considerations also will be included. You should use a widely
      used spreadsheet such as Microsoft Excel for this part.
   e) The recommendation section.
      Please see the document titled “Consulting report assumptions” for more specific details that must be
      included in the report.

2) The report must look, feel, and read as though it is coming from a professional investigator. Note that
   the intended audience is the ABC board, not the instructor.

3) The report will be about 12-14 single-spaced pages of concise prose excluding cover sheets, title page,
   tables, figures, table of contents, list of tables and figures, references, and appendices.

4) The report must include support material such as tables, figures, etc.

5) Information for preparing the report will be found in library searches and in the field activities, as well
   as the CoStar database. It is your responsibility to collect the appropriate data.

6) I suggest that you present your report in a style (title, subtitles, and references) used by the journal
   Real Estate Economics. You can find this journal in the CSUS Main library. Alternatively, the style
   guidelines for Real Estate Economics can be found here:
   http://www.areuea.org/publications/ree/style.phtml

You must submit the names of the members of your consulting group (up to 3 students) by 6:00 p.m. on
February 12. Each consulting group is responsible for selecting and having me approve an income
producing property. You must select a property and inform me about your choice by 6:00 pm on March 19.

You may submit an initial draft of your report to me for evaluation. If you choose to do so, I will provide
you with feedback on a timely manner, so you can revise and improve your report. Initial drafts are due
April 23. You may submit initial drafts either electronically or as hard copies. Submitting initial drafts of
reports is optional and does not affect your grade (other than the potential indirect effect of improving the quality of your final version).
Regardless of whether or not you submit an initial draft, the final version of the report is due by 6:00 pm on May 7. Please bring a hard copy to class.
Sample consulting reports submitted by students in previous semesters are available in the course page in SacCT. Please note that these samples are not intended to be examples of “good” or “bad” work. I’ve provided them for your reference and to give you a general idea of what a final version of the report might look like. Please note that you WILL NOT be allowed to analyze any of the properties from the sample reports.

**Presentation of the Consulting Report**

You (or your group) will present your findings and conclusions to the rest of the class on the last day of classes, May 14. Your presentation should be to the point and demonstrate your ability develop a professional business presentation on substantive material you have produced. The PowerPoint (or Prezi) presentation allows you to develop and practice your presentation skill, using a visual aid. Thus, this is an effective way for you to enhance your business communication skills.

Remember the presentation will be to ABC’s executive board. You or your group will have 15 to 20 minutes to give the presentation, including time for questions. Therefore, the group should focus on the essential elements of your report, particularly your findings and recommendations. Do not plan to spend a lot of time discussing the location and market analysis. Preparation and timing are essential to your success.

Also, please send me the electronic version of your final report and presentation slides by SacCT email. You may send each on the days they are due (May 7 for the report and May 14 for the slides). Alternatively, you may bring electronic copies to class, and I can copy them to my flash drive. This will help me become familiar with your work an allow me to refer to it for grading. Also, I’d like to have the electronic copies, so I can show some examples of your work to future generations of MBA 251 students.
Appendix B: Requirements for Article Summaries

1. Each student can submit up to 3 article summaries.
2. Each article summary must
   a. Be of an article related to a finance topic covered in class throughout the semester and appear in print or online versions of Wall Street Journal, New York Times, Financial Times, Bloomberg BusinessWeek, The Economist, Sacramento Bee, or San Francisco Chronicle between January 27 and May 7, 2014. In addition to articles from the sources listed, you may read and summarize finance-related articles that are posted in the “Supplemental materials” section of the course you may find particularly interesting. If you are not sure if the article is related to the course you may check with me before submitting it;
   b. Have a title page with the course title, student’s name, title of the article, source of the article, and the date the article appeared;
   c. Include the full text (not just the link) of the article, scanned or copy-pasted;
   d. Be at least 2 full pages and at most 3 full pages, in addition to the title page. Therefore you should choose relatively lengthy articles (at least 1200 words). If you have trouble finding lengthy articles, I suggest taking advantage of the databases available through the CSUS library, such as LexisNexis Academic or ABI/Inform;
   e. Be typed and not handwritten;
3. Each typed page (except the title page) must
   a. Be double spaced, in 12 font in either Times New Roman or Cambria fonts.
   b. Have top, bottom, left and right margins of 1 inch.
4. Submissions that do not meet all the requirements will not receive any extra credit points.