

Real Estate Fundamentals for Planning and Development 79017R
Tuesday & Thursday, 12:00 to 1:50 PM, RGL 100
08/2001

A. COURSE OVERVIEW

This course exposes undergraduate students to the fundamentals of real estate finance, economics and the development decision-making process. Recent years have witnessed dramatic ups and downs of real estate markets, financial markets as well as regional economies, notably in the South Eastern Asia regions. Policy makers, analysts, investors and individuals from all walks of life were startled at the problems suddenly faced by countries that had not long ago been considered as economies with unlimited potential for growth. Hundreds of millions of people who expected rapidly rising standards of living suddenly saw them fall. Many scholars and analysts attribute the recent financial crisis that swept across the Asia region to the unhealthy real estate sector and real estate capital markets in the region. Many people are getting interested in learning how bubbles in real estate sectors were created. How do the fundamentals determine equilibrium demand, supply, and prices in real estate markets? How to make prudent investment decisions in real estate equity markets and capital markets?

The primary objective of this course is to help students gain insights into the fundamentals underlying real estate markets and enable students to make intelligent business decisions in increasingly complex real estate markets. The course contains the following four parts: i) real estate capital markets; ii) real estate property markets; iii) real estate valuation process; and iv) interaction of real estate markets and current policy issues in U.S. housing markets.

B. COURSE ORGANIZATION AND REQUIREMENTS

The course is a combination of lectures, guest presentations, student group presentations, and discussions. Students are expected to have read the suggested readings prior to each session so that constructive discussion can take place. There are two take-home assignments, two in-class midterms, one real estate markets forecasting group project, and one final exam.

The presentation of the real estate markets forecasting project is scheduled for October 23rd. A team of five students will work together to complete the forecasting project. Each team will prepare a 15-minute Power Point Presentation of the forecasting results in class on October 23rd.

There are two policy panel discussion sessions scheduled on November 29th, and December 4th, respectively. Students will form six panels. Each panel will select one article listed in section G below in advance and prepare to lead the discussion in class.

You must have a financial or programmable calculator that can compute annuities and present values. You will be very unhappy if you take the midterm and final without one.

C. COURSE GRADINGS

Assignments	10%
Midterms	30%
Final	40%
Class Participation	10%
Class Attendance	<u>10%</u>
	100%

D. TEXTBOOK and REFERENCES

Required Textbook:

John B. Corgel, David C. Ling, and Halbert C. Smith (2001) *Real Estate Perspectives: An Introduction to Real Estate. Fourth Edition*. McGraw-Hill. ISBN: 0-07-231822-8.

Optional Reference Books:

Betty J. Armbrust, Hugh H. Bradley and John W. Armbrust (1995) *Practical Real Estate Math. Second Edition*. Gorsuch Scarisbrick, Publishers. ISBN: 0-89787-941-4.

William B. Brueggeman and Jeffrey D. Fisher (2002) *Real Estate Finance and Investments. Eleventh (or Tenth) Edition*. McGraw-Hill. ISBN: 0-07-365809-X.

E. BLACKBOARD COURSE INFO WEB SITE

Lecture notes, assignments, solutions and other communications will be posted on Blackboard Course Info web sites at <http://learn.usc.edu> under "PLDV 406 79017 013: Fall01." Your login ID to the PLDV 406 course web site is the first part of your USC email ID before @usc.edu. Your password is your USC UNIX e-mail password. Please make sure you can access the course web site and download the course materials there.

F. INSTRUCTOR ACCESS

I will hold office hours Tuesday and Thursday, 3:00 - 4:00 PM *or by appointment*. Appointments are recommended even during office hours as meeting schedules may occasionally conflict with office hours. E-mail is a dependable way to communicate with me.

Professor Yongheng Deng
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G. CLASS MEETINGS

Week, Date	Topics and Readings
1. Aug. 28	Introduction: Course mechanics. Blackboard Course Info Website. Overview of Real Estate Industry. Manias, Panics, and Crashes in Real Estate Markets.
	PART I: REAL ESTATE CAPITAL MARKETS
1. Aug. 30	Introduction of Real Estate. <ul style="list-style-type: none">• Corgel, Ling, and Smith (2001) <i>Real Estate Perspectives: An Introduction to Real Estate. Fourth Edition.</i> Ch. 1.• Armbrust, Bradley and Armbrust (1995) <i>Practical Real Estate Math. Second Edition.</i> Ch. 6-7.
2. Sept. 4 ~ 6	First Principle of Valuation: Time Value of Money (TVM). <ul style="list-style-type: none">• Corgel, Ling, and Smith (2001) <i>Real Estate Perspectives: An Introduction to Real Estate. Fourth Edition.</i> Ch. 2.
3. Sept. 11	More Time Value of Money (TVM). <ul style="list-style-type: none">• Corgel, Ling, and Smith (2001) <i>Real Estate Perspectives: An Introduction to Real Estate. Fourth Edition.</i> Ch. 2.
3. Sept. 13	Investment Returns: IRR and NPV <ul style="list-style-type: none">• Corgel, Ling, and Smith (2001) <i>Real Estate Perspectives: An Introduction to Real Estate. Fourth Edition.</i> Ch. 2.
4. Sept. 18	Residential Mortgage Types <ul style="list-style-type: none">• Corgel, Ling, and Smith (2001) <i>Real Estate Perspectives: An Introduction to Real Estate. Fourth Edition.</i> Ch. 15.
4. Sept. 20	Residential Mortgage Prepayment and Default Risks <ul style="list-style-type: none">• Corgel, Ling, and Smith (2001) <i>Real Estate Perspectives: An Introduction to Real Estate. Fourth Edition.</i> Ch. 15.
5. Sept. 25	Primary and Secondary Residential Mortgage Markets <ul style="list-style-type: none">• Corgel, Ling, and Smith (2001) <i>Real Estate Perspectives: An Introduction to Real Estate. Fourth Edition.</i> Ch. 16.
5. Sept. 27	Commercial Mortgage Markets and CMBS <ul style="list-style-type: none">• Corgel, Ling, and Smith (2001) <i>Real Estate Perspectives: An Introduction to Real Estate. Fourth Edition.</i> Ch. 17.
6. Oct. 2	Real Estate Investment Trusts (REITs) <ul style="list-style-type: none">• Corgel, Ling, and Smith (2001) <i>Real Estate Perspectives: An Introduction to Real Estate. Fourth Edition.</i> Ch. 5.

6. Oct. 4 **First Midterm**
- PART II: REAL ESTATE PRORPERTY MARKETS**
7. Oct. 9 **Economic Analysis of Real Estate Property Market**
- Corgel, Ling, and Smith (2001) *Real Estate Perspectives: An Introduction to Real Estate. Fourth Edition.* Ch. 8.
7. Oct. 11 **Real Estate Market Demand and Supply Estimation and Economic Fundamentals Forecasting**
- Corgel, Ling, and Smith (2001) *Real Estate Perspectives: An Introduction to Real Estate. Fourth Edition.* Ch. 10.
8. Oct. 16
6:30~8:20pm
JKP 102
(Notice change of
time and location)
- Federal Reserve Board and its Influence on the Market Fundamentals. Real Estate Forecasting.**
- Guest Speaker: Prof. Stuart Gabriel, Director of Lusk Center for Real Estate.
8. Oct. 18 **Continuing on Real Estate Market Demand and Supply Estimation and Economic Fundamentals Forecasting**
- Corgel, Ling, and Smith (2001) *Real Estate Perspectives: An Introduction to Real Estate. Fourth Edition.* Ch. 10.
9. Oct. 23 **Real Estate Markets Forecasting Group Project Presentation**
- Comparison of Los Angeles, Philadelphia, and Dallas: The Present and the Future.
- PART III: REAL ESTATE VALUATION**
9. Oct. 25 **Market Comparison and Cost Approaches**
- Corgel, Ling, and Smith (2001) *Real Estate Perspectives: An Introduction to Real Estate. Fourth Edition.* Ch. 12.
10. Oct. 30 **Hedonic Pricing Model for Apartment Rents: A Multiple Regression Analysis**
- Corgel, Ling, and Smith (2001) *Real Estate Perspectives: An Introduction to Real Estate. Fourth Edition.* Ch. 12.
10. Nov. 1 **Income Approach: The Cap Rate Analysis**
- Corgel, Ling, and Smith (2001) *Real Estate Perspectives: An Introduction to Real Estate. Fourth Edition.* Ch. 13.
11. Nov. 6 **Income Approach: Discount Cash Flow (DCF) Analysis**
- Corgel, Ling, and Smith (2001) *Real Estate Perspectives: An Introduction to Real Estate. Fourth Edition.* Ch. 13.
11. Nov. 8 **Second Midterm**

12. Nov. 13 **Financial Leverage in Income Property Analysis**
- Corgel, Ling, and Smith (2001) *Real Estate Perspectives: An Introduction to Real Estate. Fourth Edition.* Ch. 13.
12. Nov. 15 **Tax Benefit in Income Property Analysis**
- Corgel, Ling, and Smith (2001) *Real Estate Perspectives: An Introduction to Real Estate. Fourth Edition.* Ch. 13.
13. Nov. 20 **A Complete Pro Forma Analysis: Apartment Rental Property Example**
- Handouts.
13. Nov. 22 **Thanks Giving Recess. No Class.**
- PART IV: REAL ESTATE POLICY ISSUES**
14. Nov. 27 **Tenure Choice: Buy or Rent?**
- Handouts.
14. Nov. 29 **Policy Issues in US Mortgage Market: Are There Discriminations in Mortgage Lending?**
- Kain and Quigley (1972) “Housing market Discrimination, homeownership, and Savings Behavior,” *American Economic Review*, 62(3): 263-277.
 - Munnell, Browne, McEneaney and Geoffrey (1996) “Mortgage Lending in Boston: Interpreting HMDA Data,” *American Economic Review*, 86(1): 25-53.
 - Berkovec, Canner, Gabriel and Hanna (1998) “Discrimination, Competition, and Loan Performance in FHA Mortgage Lending,” *Review of Economics and Statistics*, 80(2): 241-250.
15. Dec. 4 **Policy Issues in US Housing Market: Can Housing Be Made “Affordable”?**
- Gyourko and Linneman, (1994) “The Affordability of the American Dream: An Examination of the Last 30 Years,” *Journal of Housing Research*, 4(1): 39-72.
 - Deng, Quigley and Van Order, (1998) “Mortgage Default and Low Downpayment Loans: The Cost of Public Subsidy,” *International Library of Critical Writings in Economics (Vol. 85): The Economics of Housing*, 253-275.
 - Quigley, Raphael, and Smolensky, (2001) “Homeless in California, Homeless in America,” *Review of Economics and Statistics*, 83(1): 37-51.
15. Dec. 6 **Review Session**
16. Dec. 11 **2:00 – 4:00 pm. Final Exam. Room RGL 100.**