

CM 4570 Development Process I – Fall 2009

Construction Course Title: Development Process I (4– 0 – 4)

Classroom: H-322

Class Periods: Tuesday & Thursday 8:00 to 9:50 pm

Prerequisites: ACCT 2101

Instructor: Mr. John Hicks

Office: Room #H346

Office Hours: Monday, Tuesday, Wednesday and Thursday - as posted

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Catalog Description:

The course is intended to provide the student with an understanding of the market forces that shape real estate development. The course will provide a familiarity of the principles and procedures employed in determining the feasibility of improvement of real property and with an elementary knowledge of the project appraisal process. Different tools and analysis techniques used in development feasibility are the main focus of this course.

Course Structure/Approach:

This is a lecture class that strongly encourages class participation. In addition to lectures, students will be required to participate in several discussions on case studies that will be presented by the instructor. Students will also be required to complete a team project to be turned in at the end of the semester. Students will be divided up into groups of four and will be required to produce a formal offering memorandum similar in format to that contained in Appendix B of the Miles text justifying the financial and market feasibility of their proposed development site. Each group will be required to make a brief 15-20 minute oral presentation to the rest of the class at the end of the semester in addition to turning in one bound written copy of their offering memorandum.

Course Objectives:

The course provides an overview of the development process as it relates to evaluating the feasibility of developing a small scale commercial development project. This course will focus on market and financial analysis as they are conducted throughout the development process in order to support to viability of the proposed development.

Targeted Learning Outcomes:

The targeted learning outcomes are as follows:

1. Acquire an understanding of the “eight stage” real estate development model.

2. Acquire an understanding of the market forces that have shaped real estate development in the United States over the past 100 plus years.
3. Develop a working knowledge of the principal methods employed to generate, evaluate and refine development ideas.
4. Acquire an understanding of the role of the public sector and associated governmental approvals in the real estate development process.
5. Develop a working knowledge of the primary methods used to locate, evaluate, select and acquire a potential development site.
6. Acquire working knowledge of the principles and procedures employed in real estate market analysis (both for commercial and residential projects) and relate these to developing a “market feasibility study” that ultimately produces a target product type, product pricing strategy and projected absorption figure.
7. Acquire an understanding and ultimately demonstrate the ability to create a basic financial pro-forma (financial feasibility model) for both a typical land development and rental income/expense real project.
8. In conjunction with 7 above, develop a working knowledge of how to perform an NPV (Net Present Value) calculation on a projected cash flow stream resulting from the sale of land parcels/lots and from the net profit derived from a traditional income property.
9. In conjunction with 7 and 8 above, demonstrate the ability to perform sensitivity testing on the below listed variables and understand its importance as it relates to assessing the overall “risk” of a project.
 - a. Cost of capital (equity and third party debt)
 - b. Acquisition cost or purchase price
 - c. Market absorption of product (ie. improved land parcels and lots, commercial space, multifamily units)
 - d. Construction costs and timing to complete development
 - e. Contingency factors used to account for other issues such as regulatory approvals and political constraints
10. In conjunction with 6 above demonstrate an integrated understanding and working knowledge of the sales and marketing process as it relates to the overall development process along with understanding the impact of market absorption on the success of a real estate development project.
11. Be able to demonstrate an integrated understanding and working knowledge of the sales and marketing process as it relates to the overall development process along with understanding the impact of market absorption on the success of a project.
12. Gain an elementary knowledge of the following topics related to development:
 - a. Types of construction and permanent project financing associated with real property development and acquisition
 - b. Three traditional methods of real property appraisal
 - c. Importance of design as it relates to real property development
 - d. Critical construction issues associated with real property development
 - e. Asset management and long term value creation

Lectures and Assigned Readings:

Lectures will be taken largely from assigned readings and supplemented by outside sources and the instructor's professional experience in the real estate development industry. The course will cover a lot of topics and even though the instructor will endeavor to cover the material as thoroughly as possible in the lectures. However, the student can greatly enhance their learning experience by reading the assigned readings in advance of the scheduled lecture on that topic.

Text and other Class Materials:

Required:

Miles, Mike E., et. al. Real Estate Development Principals and Process. Fourth Edition. Urban Land Institute, 2007.

An HP-12C financial calculator or later HP version such as 17B II is required for tests, homework problems and project.

Supplemental:

Zuckerman, H. A. and G. D. Blevens. Real Estate Development Workbook and Manual. Aspen Publishing, 2003

Kone, Daisy, Land Development. 10th Edition. Home Builder Press

Donohoe, Robert J. Cashflow Analysis. The Regent School Press; Sixth Edition, 2002.

Grading Policy:

Exams: There will be three exams and one "final exam". Tests and exams will be primarily objective in format consisting of fill in the blank, true/false and multiple choice answer questions. Short answer "essay type" questions will also be included that will be more subjective in their correctness. The final exam will be held on the date indicated by the University in its schedule of final exams. The weighting of the exam scores will be as outlined below in the Final Grade Calculation section below. Students who are not present during a scheduled exam will receive a grade of zero for that exam. Only under extenuating circumstances will students be allowed to make up an exam. In situations where the student knows in advance that he/she cannot be present on the date of an exam the student is expected to make prior arrangements with the instructor in order to be considered for a make up. Last minute absences on the date of an exam will only be excused in the event of a valid medical or family emergency. All requests for an "excused" medical and/or family emergency must be accompanied by written justification of the absence from a third party provider. All make up exams will be closed book and closed notes.

Classroom Participation, Attendance and Quizzes: As noted above, students are expected to attend and participate actively in every class. While the decision to attend class is left to the student's discretion, class attendance and participation will impact the student's final grade. Roll will be taken for every class. *Any student who misses more than three (3) classes without having a documented medical or family emergency excuse for each absence will have their Classroom Participation grade reduced by two letter grades.* In short, any student that misses more than three (3) classes can expect at best a letter grade of "C" for Classroom Participation. The

instructor reserves the right to utilize “pop quizzes” should he feel it necessary to encourage class participation and attendance. A student’s score on any quizzes will be used as a factor in determining their final Classroom Participation grade. If a student is absent on the date that a quiz is given, the student will be given a zero for that quiz. There will be no make ups for quizzes.

Out of class assignments (homework): Out of class assignments are due on the date indicated in the Schedule of Lecture Topics and Assignments below. *Failure to turn in an assignment on its due date will result in the loss of one letter grade. Failure to turn in an assignment by the end of the next class date after its initial due date will result in a score of zero for that assignment.* As a means to encourage attendance, no assignments will be accepted electronically unless otherwise noted by the instructor. All out of class assignments must be typed and include the following information at the top of the first page:

Student Name: John Doe

Class: CM 4570

Date: August 26, 2009

Assignment Description (ie. Real Estate Development Principles, Chapter One Review Questions 1, 2, 3 and 5)

If the assignment involves the answer to a question at the end of the chapter, only the answer needs to be included. The student does not need to retype the question, only the question number and its answer.

Team Project: During the first class meeting, students will be grouped into teams of two (2) students per team. Each team will be expected to produce a Confidential Offering Memorandum similar to that enclosed as Appendix B to the Real Estate Development Principles and Process text referenced above for a specific piece of commercial property that is chosen by the group and approved by the instructor. The property chosen may be any type of “for rent” commercial property such as multi-family, retail, office or industrial being at least 100,000 GSF in size. Teams shall play the role of a real estate broker that has been retained by the property’s owner to prepare a Confidential Offering Memorandum offering the property for sale to outside investors. As noted in the Schedule of Lecture Topics and Assignments this project will be completed on a “step by step” basis with portions of the final report due at interim dates throughout the semester. Each group will be expected to turn in a bound, typed report at the end of the semester as well as make a 30 minute Microsoft “Power point” type presentation to the class.

Final Grade Calculation:

1. Exams: 45% - Exams One, Two and Three 10% apiece and Final 15%
2. Classroom Participation: 15%
3. Out of Class Assignments: 10%
4. Team Project: 20%

There will be no curve for the final grade, only straight averages. The minimum cutoff for an A is 89.5% and above; for a B is 79.5% and above; for a C is 69.5% and

above; and for a D is 59.5% and above. Anything below 59.5% is considered an F. The instructor reserves the right to lower these cutoff values depending on specific circumstances surrounding the overall performance of the class.

Schedule of Lecture Topics and Assignments

Class	Date	Subject of Lecture/Lab	Assignments Due	Reference(s) & Text
1	25 Aug 09	Class Administration Introductions Team Formation & Project Review		
2	27 Aug 09	Real Estate Development Process Raw Material – Land Developers and Partners	Student Acknowledgement	Miles 3 -17 Miles 19-37 Miles 39-64
3	1 Sept 09	Inception of an Idea Market Research	Miles – page 17, 1.4 and 1.5 Miles – page 64, 3.1, 3.3, 3.4, 3.6,3.8	Miles 235-252 Miles 253-268, Handout
4	3 Sept 09	Refinement of an Idea Site Selection	Miles – page 268, 11.2 and 11.3	Miles 269 – 295 Handout
5	8 Sept 09	Roles of the Public Sector & Affordable Housing	Miles – page 295, 12.1, 12.3 and 12.5	Miles 299-387
6	10 Sept 09	Master Planning & Preliminary Design	Miles – page 321, 13.2 and 13.4 Miles – page 351 & 352, 14.1 and 14.3 Miles – page 385, 15.1, 15.2, 15.4 and 15.5	Handout
7	15 Sept 09	Feasibility Studies Market Analysis/Product Type & Strategy	Project: Site Selections Due	Miles 391-414 Miles 415-445
8	17 Sept 09	Project Financing Design & Construction Contracts Final Contract Execution	Miles – page 414, 16.3, 16.4 and 16.5 Miles – page 431, 17.3 and 17.5	Miles 449-485
9	22 Sept 09	Construction Issues Project Completion & Opening Post Opening	Miles – page 485, 19.1, 19.2, 19.3, 19.4 and 19.5	Miles 487-503 Miles 507 - 532

10	25 Sept 09	Exam One Review	Miles – page 503, 20.2, 20.3 & 20.5 Miles – page 531 21.1 & 21.3	Handout
11	1 Oct 09	Exam One		
12	3 Oct 09	Time Value of Money Basic Cash Flows		Handout
13	6 Oct 09	NPV and FV Calculations Internal Rate of Return Calculations		Handout
14	8 Oct 09	Development Cost Budget - Template	Problem Set 1	
15	13 Oct 09	Income/Expense Statements & Operating Pro-Formas – Template	Project: Progress Assessment I – Market Analysis	
16	15 Oct 09	Development Pro-Forma – Template	Problem Set 2	Miles 177-180, 194-198
17	20 Oct 09	Financial Feasibility & Linkage between Development Cost, Income Statement & Returns		Miles 210-211
18	22 Oct 09	Exam Two Review	Problem Set 3	Handout
19	27 Oct 09	Exam Two	Exam Two	
20	29 Oct 09	Market Research Methods & Analysis Potential Guest Speaker		Miles 415 - 445
21	3 Nov 09	Sales & Marketing Strategies	Miles – page 431, 17.1, 17.2, 17.4 and 17.6	Miles 533-554
22	5 Nov 09	Real Estate Finance – Background & Players Debt & Equity Financing Topics	Miles – page 554, 22.1, 22.3, 22.4, 22.5, 22.6 and 22.7	Miles 149-175 Handout
23	10 Nov 09	Loan Package Preparation Lender Ratios	Project: Progress Assessment 2 Financial Pro-Formas	Handout
24	12 Nov 09	Appraisal Methods		Handout
25	17 Nov 09	LEED topics related to development	Problem Set 4	Handout
26	19 Nov 09	Exam Three Review		Handout
27	24 Nov 09	Exam Three	Exam Three	
28	26 Nov 09	Thanksgiving Holiday		
29	1 Dec 09	Case Study Discussion – Potential		Handout

		Guest Speaker		
30	3 Dec 09	Real Estate and Ethics Project Presentations –Teams 1 & 2	Project Presentations	Handout or web link
31	8 Dec 09	Project Presentations –Teams 3 & 4	Project Presentations	
32	10 Dec 09	Final Exam Review		Handout
33	TBD	Final Exam		

NOTE: This syllabus is intended to represent the general format of the class. The instructor may make changes if it is determined that such changes will better suit the needs of the students.

Additional Policies:

Students with Disabilities:

Students with disabilities who believe that they may need accommodations in this class are encouraged to contact the counselor working with disabilities at (678) 915-7226 as soon as possible to better ensure that such accommodations are implemented in a timely fashion.

Plagiarism:

It is assumed that by this time in the student's matriculation, he/she is well-versed with what constitutes plagiarism. Proper citation of references is required for this and all your coursework in the CNST program. Failure to comply with this requirement may result in disciplinary action.

Communications:

Students are strongly advised to check their *spsu.edu* email account on a daily basis throughout the semester as this will be the primary means outside of class in which the instructor will communicate with each student. In the “real world” good communications are essential and employees are expected to check their email accounts on a regular basis as this is the primary means by which all major private and public entities use to communicate with their associates. *Failure to check one’s email account that results in a missed assignment will not be considered a valid excuse to have missed an assignment.*

Cell Phones/PDAs:

The use of cell phones/PDAs during class will not be tolerated. The classroom environment will be treated the same way as if this was a corporate meeting in a large conference room in which your boss was delivering a presentation. He/she would not tolerate their use and a “wise” young employee would probably shy away from their use in order to prevent their discharge from the firm as a result of their rudeness. Students should turn OFF their cell phones/PDAs at the start of the class and leave them in that position until the conclusion of the class. The first use of a cell phone during will result in the dismissal of the student from that particular class and the receipt of a “zero” for that class’s particular assignment, exercise, exam, quiz, etc.. The second use of the device during class will result in the withdrawal of the student from the class by the instructor. Withdrawal of the student by the instructor after the official “drop date” will result in the grade of a “WF” for the student.

Laptop Computers:

The use of laptop computers during the classroom period will be allowed so long as the student is using the laptop to research material related to the class. *The instructor does however, reserve*

the right to designate certain periods of time that all laptops must be closed and turned to the “off” position. Examples of those time periods will be the administering any exams, quizzes, etc., whenever a guest speaker is conducting the class (see below for more policies related to guest speakers) and any other time at the instructor’s sole discretion that he feels that it is not appropriate nor conducive to the overall learning experience.

Guest Speakers:

It is the intent of the instructor to line up 2-3 guest speakers throughout the semester to share their “real world” knowledge of certain topics. The instructor will endeavor to announce the upcoming guest speaker at least 4 class periods in advance of their presentation. Attendance at these presentations is strongly encouraged. Students need to remember that these speakers are taking time out of their personal/professional lives to spend an hour and a half with us. In short, they are doing us, the CNST program and university a tremendous favor. We need to show them that we appreciate their efforts and time. Students need to pay attention during these presentations and feel free to ask as many questions as they feel appropriate. “No question is a stupid question”. The instructor has been in charge of several hundred million dollar commercial projects during his career and has found that if something is unclear to one person.....*it is probably unclear to several other people also.*

STUDENT ACKNOWLEDGEMENT

I, _____, have read the Syllabus for **CM 4570** and fully understand the class requirements as well as the grading policy.

Signed: _____

Name: _____

Date: _____