

UP475 | Real Estate Development Fundamentals | Spring 2017

Department of Urban and Regional Planning

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Temple Hoyne Buell Hall, Room 225. Tues & Thurs 3:30-4:50pm

Office Hours: Tues 10:00-11:00am Temple Buell Hall, Room M216

Course Description

Development creates the built environment, producing neighborhoods, and places of work and commerce, ultimately helping to shape how we live. The choices we make about the locations and characteristics of development help determine the quality of life in and long-term viability of our cities. Real estate development is a dynamic process, and the ever-changing, multidisciplinary nature of the field makes development an exciting and challenging endeavor. Tasked with helping communities and clients shape development outcomes to achieve their goals, planners need to understand the fundamentals of the real estate development process and the motivations of various stakeholders involved in bringing a project to completion in order to make effective and feasible plans. While developers are entrepreneurs motivated to take on the risk of development in exchange for financial returns on their investment, this is not their only driver and they do not act alone. The development process is distinctively **collaborative** and **interdisciplinary**, creating a decision-making environment that requires the skillful coordination of a variety of professionals using their expertise, strategic interaction, and resource management to enhance the social and economic value of the built environment.

This course will provide students an introduction to the fundamental concepts and techniques applied in the real estate development process, examining both the broader economic and social context in which real estate development is situated as well as how various professions interact within this context. Course assessments will include several assignments and a group project using an actual development site that will provide students with the chance to apply the concepts and techniques learned in the course, culminating in a final report and presentation. The overall objective of the course is to provide students with a useful framework for understanding the real estate development process, allowing them to identify of viable development opportunities and analyze real estate development projects, while weighing the economic, social, and environmental costs and benefits for a community.

The course is divided into four parts. In the first section, students will be introduced to the real estate development process, looking at the history of development in the US and reviewing the roles that various stakeholders play in the process. In the second section, students will become familiar with the nuts and bolts of the development process using the eight-stage model as a guide. We will look at the idea inception of a project, feasibility analysis, financing and negotiations, construction and marking, and the management of a completed project. In the

third section we will look more closely at some of the tools and techniques used to plan and evaluate projects by the industry to include suitability analysis, pro-formas, cash flow and time value of money calculations, and mortgage basics. In the fourth section, we will spend some time exploring current development and redevelopment trends to include specific property types that pose interesting problems like affordable and senior housing, and planning paradigms like New Urbanism, smart growth, and sustainable development.

Course Objectives

Throughout the semester, students will:

1. Develop a familiarity with and apply the fundamental concepts and techniques used in the real estate development process
2. Build a **vocabulary** and the **ability to communicate** about the real estate development
3. Engage in **critical reflection** about weighing the economic, social, and environmental costs vs. benefits of development projects for a community

Course Format

The course is delivered through a mix of teaching and learning methods including seminars, peer-led discussions, guest lectures, tutorials, site visits, assignments, and projects. Class sessions are seminar-based, encouraging active participation and enabling students to learn from each other. You will prepare for sessions by reading a selection of recommended book chapters and articles. Prior to each class, students are required to complete the assigned readings and submit a **reading reflection** (explained below). Most class sessions will follow one of the following formats:

1. *Lecture/discussion*: Beginning with the instructor providing an overview of the basic questions and debates dealt in that session's readings. The second part of these sessions will have an assigned student(s) **discussion leader** (see below) to initiate and sustain discussions. All students are expected to actively participate.
2. *Guest lectures*: Professionals with expertise in the various stages of the real estate development process will be invited to share their experiences with the class.
3. *Designed activities or in class exercises*: In addition to or in lieu of lectures/discussions, certain classes may have activities or exercises intended to supplement the learning objectives such as quizzes, quick writes, field trips, etc.

Reading Reflections Blog and Discussion Leader Roles

Reading reflections on the week's **upcoming** assigned readings must be submitted to the **Reading Reflections Blog** on Compass by **2:00pm on Tuesday** of each week. These submissions are meant to demonstrate your engagement with course material and provide feedback to me

about ideas or concepts that may be confusing or need further explanation. Your reflections should be brief (200 to 300 words), written in paragraph form, and respond to the following prompts:

- Reading #1: Title...
 - What do YOU think is the author's main point?
 - What did you like about the reading? What did you not like about the reading?
 - Identify some aspect of the reading that made an impression on you (new fact, enlightening observation, new twist to an old idea, writing style, relationship to another reading, etc.).
 - State one question you would like to ask the class, or one aspect of the reading that you did not understand.
- Reading #2... : Title... repeat... items 1 through 5.

Discussion leader dates will be assigned in on Day 2. On the assigned dates, the discussion leader(s) will be responsible for facilitating a discussion on the readings for the week. Prior to the class session the discussion leader(s) will develop a list of discussion questions in addition to their weekly reading reflection. Post your discussion questions on the Compass by 5:00 PM of the **day before** the planned discussion. Discussion leaders should post their submissions each time as a New Thread in the Discussion Leader “forum” on the Discussion Board. Come to class prepared to facilitate a 30 to 45 minute discussion on the day’s readings and topic using a mix of questions and/or activities. The use of additional materials, such as case studies, relevant newspaper articles, or videos, to engage your classmates is **highly encouraged**. See the instructor for ideas about where to look for case studies and examples of applicable development related issues and debates. *If there is more than one discussion leader be sure to coordinate your efforts prior to the class session.*

Course Evaluation

Course evaluation will be based on a combination of class participation, periodic in-class quizzes, assignments, and a group project. Class participation will be based on class involvement, engagement and attendance, in addition to your performance as discussion leader. If you must miss a class session due to special circumstance such as illness or family emergency, you should notify me via e-mail (dallred2@illinois.edu) as soon as possible. More than two (2) unexcused absences will result in an automatic drop of ten (10) percentage points from your final grade. All assignments should be submitted to Compass on the due date unless otherwise noted. Late assignments will be graded down one letter grade per day (half a letter grade if turned in after class on due date). Grade percentages will be distributed as follows:

Class participation/discussion leader	20%	Financial analysis problems	10%
Public meeting reflection	10%	Entitlement assignment	10%

Reading reflections	10%	Group project	20%
Quick quizzes (10)	20%		

Transformation of numerical grade to letter grade will be according to the schedule below:

A	93-100	C+	77-79.9
A-	90-92.9	C	73-76.9
B+	87-89.9	C-	70-72.9
B	83-86.9	D+	67-69.9
B-	80-82.9	D	60-66.9

The general grading rubric for assignments is as follows:

An “A” assignment demonstrates original thought and synthesis of ideas and sophisticated, cogent analysis. It is clearly written and presented.

A “B” assignment includes above average analysis with appropriate evidence to support ideas. It is clearly written and presented.

A “C” assignment shows a basic level of understanding, with analysis limited to obvious arguments. Writing is competent. It is adequate work.

A “D” assignment misunderstands or misrepresents the material or is so poorly written that it obscures the analysis. It is inadequate work.

Class participation and discussion leader (20%): You are expected to be an engaged participant in class and a thoughtful and prepared discussion facilitator on your assigned day. Attendance will be taken daily. Your role as a discussion leader will be graded based on timeliness and thoughtfulness of submissions, relevance of moderated discussions to the assigned readings, and your ability to engage a broad section of the class.

Reading reflections blog (10% total): Weekly posts to Compass that demonstrate your familiarity with that week’s readings and give you the opportunity to reflect on what you are learning. I will review your posts throughout the semester and assess a final grade based on following directions (responding to prompts) and the completeness of the task.

Quiz quizzes (2%each – 20% total): These short quizzes will be administered in class to assess your comprehension of the course material.

Financial analysis problems (10% total): A problem set applying the financial analysis tools and techniques of real estate development.

Public meeting reflection (10%): Students will be required to attend and report on a public meeting relating to real estate development (planning, review, or approval). A list of potential meetings to attend will be provided.

Entitlement process assignment (10%): Students will research the entitlement process in their hometown and report on the process to the class.

Group project (20%): Working in groups, you will create a proposal for development using the tools and techniques covered in this class and others. Groups will evaluate existing conditions for a given site, and use market conditions to create a financially feasible concept and design for a mixed commercial and residential development. Submittals include several preliminary milestones, a formal report, and presentation to the class.

Text and Readings

Required Text: *Real Estate Development Principles and Process* (5th Edition, 2015), by Mike E. Miles, Laurence M. Netherton, and Adrienne Schmitz. Urban Land Institute (ULI): Washington, D.C. This is the main text for the course, referred to as “ULI” in the schedule, from which most readings will be assigned and it is **required** for the course. Several readings from an additional text will be posted on the course Compass website and referred to as “Ling & Archer” (Ling, David and Wayne R. Archer. 2013. *Real Estate Principles: A Value Approach, 4th Edition*. McGraw Hill).

The additional readings listed on the schedule will be posted on the course Compass website.

Readings are listed by week (“lesson” modules in Compass) in the schedule below. All required readings on the schedule **must** be completed prior to the beginning of the first class for that week. For example, students should have read all the required readings in the Lesson 2 (week 2) module folder BEFORE they arrive to class on January 25th and with enough time to have submitted their reading reflection by noon on that Monday, January 25th. Reading for this class is imperative for contribution to discussion. Failure to keep up with required readings seriously inhibits learning and will most likely reflect poor performance on assignments and exams, as well as the evaluation of your in class participation.

Course Website

The course website is central to this class. You should check the Compass website frequently for updates to course materials. In addition, you will submit all assignments on the website.

Course Policies

Student Conduct: From the University Student Code, Article 1, Part 3: Students enrolling in the University assume an obligation to conduct themselves in a manner compatible with the University's function as an educational institution and suitable to members of the academic community. Students are responsible for knowing their rights and responsibilities as found in the student code at <http://www.admin.uiuc.edu/policy/code/index.html>.

Special Circumstances: Due to the participatory nature of this course, please communicate any expected or unexpected absences with the instructor as early as possible. Every effort will be made to work with students with unusual or unexpected obligations outside the course (family emergencies, health issues, participation in University sanctioned activities, etc.) Students with disabilities or special needs who require any accommodations to facilitate full participation and completion of the course should contact the instructor as soon as possible. Please refer to the Disability Resources and Educational Services at <http://www.disability.illinois.edu> for more information.

Safety and Security in the Classroom: Emergencies can happen anywhere and at any time. It is important that we take a minute to prepare for a situation in which our safety or even our lives could depend on our ability to react quickly. When we're faced with any kind of emergency – like fire, severe weather or if someone is trying to hurt you – we have three options: Run, hide or fight. Please refer to the General Emergency Response Recommendations at <http://police.illinois.edu/dpsapp/wp-content/uploads/2016/08/syllabus-attachment.pdf> for more information.

Schedule and Required Readings

Section 1 – Introduction to the Real Estate Development Process: In this section we will define real estate development and review the background and principles that make real estate unique. We will look at the different participants in the processes that make real estate development possible. We will explore the connections between real estate development and the evolution of urban areas.

Week 1 – Introduction

Themes: Real estate, the eight-stage model, the built environment

Readings:

ULI – Chapter 1: Introduction to the Real Estate Development Process
Ling & Archer – Ch. 1: The Nature of Real Estate and Real Estate Markets
Kaysen, Ronda. 2016, May 15. Displaced in New York. *The New York Times*, p. B10.
https://www.nytimes.com/2016/05/15/realestate/priced-out-of-my-childhood-home.html?_r=0

Week 2 – Development Background, Urban Economics, and Stakeholders and their Roles in the Development Process

Themes: Capital markets, demographic trends, major players in the development process, roles and responsibilities

Readings:

ULI – Chapter 2: The Raw Material: Land and Demographics
ULI – Chapter 3: Developers and their Partners
Sagalyn, Lynne B. 2015. Real Estate and the Local Planning Context. In *Local Planning: Contemporary Principles and Practice*, eds. Gary Hack, Eugenie L. Birch, Paul H. Sedway, and Mitchell J. Silver. ICMA Press.
Dougherty, Conor. 2016, July 3. How Anti-growth Sentiment Reflected in Zoning Laws, Thwarts Equality. *The New York Times*, <https://nyti.ms/29cwMXH>.

Assignments:

- Introducing the Final Project

Section 2 – The Eight-Stage Model of Real Estate Development: Despite the complexity of the development process, developers typically follow a standard sequence of steps from the when an idea is first conceived through to the time they begin ongoing asset management or sell a finished product. In this section we will at the steps in the process in detail, starting with idea inception and refinement, moving through studies of market conditions and financial feasibility, and concluding with construction, marketing, and sale or management of the final product. Although presented as a linear sequence, the process is more dynamic and iterative, reflecting constant adjustments and repositioning as a project moves through the stages.

Week 3 – Stage One: Idea Inception

Themes: Identifying an opportunity and/or need, idea generation tools and techniques, initial feasibility

Readings:

- ULI – Chapter 9: Stage One of the Development Process: Idea Inception
- Bunnell, Gene. 2002. Making Places Special: Stories of Real Places Made Better by Planning. APA. Chapter 2: Good Places, pp 31-44.
- Urban Land Institute Case Studies. 2016. Avalon. <http://casestudies.uli.org/avalon/>.
- Meyer, Eugene L. 2015, December 2. Washington Neighborhood is Remade for Young Urbanites. *The New York Times*, p. B8. <https://nyti.ms/2jHg4rP>.

Assignments:

- Project Milestone: Generating Ideas
- Public Meeting Reflection

Week 4 – Creating Value? Development Issues and Outcomes in the Community Context

Themes: Historical trends, costs vs. benefits, and the politics of development

Readings:

- ULI – Chapter 4: The Colonial Period to the Late 1800s
- ULI – Chapter 5: The Late 1800s to World War II
- ULI – Chapter 6: The Modern Era: World War II to the Present
- Weber, Rachel. 2015. From Boom to Bubble: How Finance Built the New Chicago. University of Chicago Press. Chapter 1: The Rhythm of Urban Development.

Assignments:

- Project Milestone: Generating Ideas

Week 5 – Financing the Project

Themes: Sources of funding, real estate cycles, the finance process

Readings:

- ULI – Chapter 10: Real Estate Finance: Background
- ULI – Chapter 11: Real Estate Finance: The Basic Tools
- Badger, Emily. 2012. The Real Estate Deal That Could Change the Future of Everything. *CityLab* (<http://www.citylab.com/work/2012/11/real-estate-deal-could-change-future-everything/3897/>).
- Formigle, Ian. 2016, November 22. Crowd Street Editorial: ULI Emerging Trends 2017, <https://www.crowdstreet.com/education/article/crowdstreet-editorial-uli-emerging-trends-2017/>.

Addition resources (not required for reading reflections):

- Capps, Kriston. 2017. When Harlem unemployment pays for midtown luxury. *Citylab* (<http://www.citylab.com/politics/2017/01/how-to-fix-the-broken-eb5-cash-for-visas-immigration-program-trump/511265/>)

Assignments:

- **Due 2/16 – Project Milestone: Generating Ideas**

Week 6 – Proving the Concept and Project Feasibility

Themes: Market analysis, suitability analysis, urban growth models, risk control

Readings:

ULI – Chapter 12: Stage Two: Idea Refinement

ULI – Chapter 13: Stage Three: The Feasibility Study

Hughes, C.J. 2016, February 7. Advance of the Rentals. *The New York Times*, p. B8.

<https://nyti.ms/2kXck6U>.

Jepson, Edward J., Jr. and Jerry Weitz. 2016. *Fundamentals of Plan Making: Methods and Techniques*. Routledge. Chapter 2: Data Retrieval and Management for Community Analysis.

Addition resources (not required for reading reflections):

Brett, Deborah L., and Adrienne Schmitz. 2009. *Real Estate Market Analysis: Methods and Case Studies*. ULI. Chapters 2, 3 and Webliography.

Assignments:

- Project Milestone: Market Conditions

Week 7 – Collaboration, the “Public Interest,” and the Entitlement Process

Themes: Property rights and entitlement processes, land use regulations, development control mechanisms, discretionary approvals, public participation, and public/private partnerships

Readings:

ULI – Chapter 7: The Role of the Regulatory Sector

ULI – Chapter 8: Decision Makers and Stakeholders

Floyd, Charles F. and Marcus T. Allen. 2014. *Real Estate Principles*, 11th Edition.

Dearborn. Chapter 4: Public Restrictions on Ownership

Addition resources (not required for reading reflections):

Fulton, William, and Paul Shigley. 2012. *Guide to California Planning*, 4th Edition. Solano Press.

Chapter 4: The Structure of Planning Decision Making Part One: Local Governments

Chapter 5: The Structure of Planning Decision Making Part Two: Other Players in the Planning Process

Assignments:

- The Entitlement Process

Week 8 – Making it Happen

Themes: Contract negotiation, allocating risk and responsibility, funding and managing the construction process

Readings:

ULI – Chapter 14: Stages Four and Five: Contract Negotiation and Formal Commitment

ULI – Chapter 15: Stage Six: Construction

Davidowitz, Amanda, Jamin Kimmell, and Nicholas Kobel. 3339 Division: A Case Study of the Real Estate Development Process.

Assignments:

- Project Milestone: Concept and Design
- **Due 3/9 – Project Milestone: Market Conditions**
- **Due 3/9 – The Entitlement Process (be prepared to discuss your findings in class)**

Week 9 – Following Through to Completion with Marketing and Management

Themes: Matching market research to marketing, developing a marketing vision, maximizing project value over time

Readings:

ULI – Chapter 16: Marketing, Sales, and Leasing

ULI – Chapter 17: Stage Eight: Property, Asset, and Portfolio Management

Gose, Joe. 2016, February 17. Pittsburgh Exchanges Macy's for Mixed-use Giant. *The New York Times*, p. B4.

Urban Land Institute Case Studies. 2017. Lofts of Washington University,

<http://casestudies.uli.org/lofts-of-washington-university/>.

Shaer, Matthew. 2016, June/July. Making a Scene. *Conde Nast Traveller*, 56-61.

Assignments:

- Project Milestone: Concept and Design

Week 10 – Spring Break

Section 3 – Tools and Techniques: In this section we will look at investment decision and valuation techniques in more detail. Developers, investors, lenders, and public officials all use the same measurement tools to gauge the feasibility of a project, but their objectives differ materially. Developers and investors want to maximize the value of a project, while lenders want to make sure cash flows are sufficient to cover debt. Public officials balance private objectives with often less tangible benefits for the community as a whole. All are concerned with understanding the costs and benefits of a project, and weighing those against risk and uncertainty. The basic tools of real estate finance provide the information needed to make informed decisions about whether to proceed with a project.

Week 11 – The basics of cash flow and the time value of money

Themes: Time value of money, loan amortization, net present value (NPV), and internal rate of return (IRR), net operating income (NOI), and Cap Rate

Readings:

Mooney. Chapter 6 – The Time Value of Money

Ling & Archer – Ch. 14: The Effects of Time and Risk on Value

Ling & Archer – Ch. 18: Investment Decisions

Assignments:

- Financial Analysis Tools Problem Set

Week 12 – Mortgage calculations and decisions

Themes: Mortgage provisions, types of loans, and financing structures

Readings:

Ling & Archer – Ch. 16: Commercial Mortgage Types and Decisions

Assignments:

- **Due 4/6 – Project Milestone: Concept and Design**

Week 13 – The Go/No-Go Decisions: Putting Together a Pro-Forma

Themes: Pro-forma uses and applications, scenario planning

Readings:

Lemmon, Wayne. Pro-Forma 101: Parts 1 to 4. *PlannersWeb: News and Information for Citizen Planners* (<http://plannersweb.com/2013/12/proforma-101-getting-familiar-with-a-basic-tool-of-real-estate-analysis/>)

Assignments:

- **Due 4/13 – Financial Analysis Tools Problem Set**

Section 4 – Trends and Issues: In this section we will explore some of the emerging trends and issues that are shaping the development opportunities and issues in our cities and communities. Concerns about the sustainability of our cities is putting the focus on the types and locations of development that either help or hinder a community's goals regarding the environment and social justice. We will look at socio-economic and demographic changes that argue for new development types and alternatives to the conventional residential suburb.

Week 14 – Where is Real Estate Development Heading?

Themes: Non-traditional housing types, mixed-use and transit oriented development, smart growth and sustainable development, adaptive reuse and infill development, financialization of infrastructure, and placemaking

Readings:

ULI – Chapter 18: Preparing for the Future

Schwanke, Dean. 2008. *Mixed-use Development Handbook*. ULI.

Chapter 1: Introduction and History

Chapter 3: Feasibility Analysis and Financing

Phil Ashton, Marc Doussard, and Rachel Weber, "The Financial Engineering of Infrastructure Privatization: What Are Public Assets Worth to Private Investors?" *Journal of the American Planning Association* 78 (3): 300-312, 2012.

Greenspan, Elizabeth. 2016, March 2. Are Micro-apartments a Good Solution to the Affordable Housing Crisis? *The New Yorker*,

<http://www.newyorker.com/business/currency/are-micro-apartments-a-good-solution-to-the-affordable-housing-crisis>.

Assignments:

- Final Project Report

Week 15 – Trends in Real Estate Development: Public-Private Partnerships

Themes: Redevelopment, revitalization, resiliency, leverage, tax yield, and planning tools

Readings:

- Nelson, Arthur C. 2014. *Foundations of Real Estate Development Financing*. Island Press
Chapter 1: The Cycle of Development, Optimal Redevelopment, Redevelopment Goals and Benefits, and Barriers to Redevelopment
Chapter 2: Implementation of Redevelopment Plans and the Role of Public-Private Partnerships
Chapter 4: Survey of Public-Private Partnership Tools and the Role of Public Patient Equity to Leverage Private Real Estate Development
- Schneider, Keith. 2016, June 1. Open Spaces Bring Light to Downtown Columbus. *The New York Times*, p. B3.

Assignments:

- **Due 4/27 – Public Meeting Reflection**

Week 16 – Student Presentations

Assignments:

- **Due 5/2 – Final Project Report**

Summary of Sessions

SESSION	WEEK	DATE	DAY	LESSON TOPIC
1	1	Jan 17	T	Course introduction
2	1	Jan 19	Th	Introduction to the real estate development process
3	2	Jan 24	T	Urban economics and development trends
4	2	Jan 26	Th	Stakeholders and their roles in the development process
5	3	Jan 31	T	Stage one of the eight stage model: Idea inception; site visit & guest speaker
6	3	Feb 2	Th	Idea inception
7	4	Feb 7	T	Historical trends in development
8	4	Feb 9	Th	The politics of development
9	5	Feb 14	T	Real estate finance background; guest speaker
10	5	Feb 16	Th	Real estate finance tools
11	6	Feb 21	T	Refining the idea and proving the concept
12	6	Feb 23	Th	The feasibility study
13	7	Feb 28	T	The entitlement process; site visit & guest speaker
14	7	Mar 2	Th	Developers and the “public interest”; site visit & guest speaker
15	8	Mar 7	T	Contract negotiation and formal commitment
16	8	Mar 9	Th	Construction; entitlements process discussion; guest speaker
17	9	Mar 14	T	Marketing, sales, and leasing
18	9	Mar 16	Th	Maintaining value; guest speaker
19	10	Mar 21	T	SPRING BREAK
20	10	Mar 23	Th	SPRING BREAK
21	11	Mar 28	T	The basics of cash flow and the time value of money
22	11	Mar 30	Th	The basics of cash flow and the time value of money
23	12	Apr 4	T	Mortgage calculations and decisions
24	12	Apr 6	Th	Mortgage calculations and decisions [work session]
25	13	Apr 11	T	Putting together a Pro-Forma
26	13	Apr 13	Th	No class
27	14	Apr 18	T	Where is real estate development heading?
28	14	Apr 20	Th	Mixed-use Development
29	15	Apr 25	T	Public-private partnerships: guest speaker
30	15	Apr 27	Th	Public meeting reflection discussion
31	16	May 2	T	Group presentations