

Tuesday 6:00-9:00pm  
Burnham Hall 304  
17216

Instructor: Phil Ashton  
Office: 217 CUPPAH  
Office hours: Mondays 1-4pm

Phone: 312-413-7599  
E-mail: pashton@uic.edu

### **Course Description & Objectives**

This course will acquaint students with the key financial principles of real estate development, particularly those related to the financing of affordable housing and neighborhood retail/commercial development. After introducing important financing concepts and tools (e.g. mortgage mechanics, net present value), students will learn how to develop, read, use, and troubleshoot development budgets and operating pro forma. The course will then examine different sources of financing, paying particular attention to the use of Low-Income Housing Tax Credits, Tax Increment Financing and other gap funding sources for community economic development. Through readings, discussion, case studies and projects, students will familiarize themselves with the changing landscape of development finance and learn how to make informed judgments about issues that will make or break real estate projects.

By the end of the semester, students in this course should have accomplished the following:

- ❑ Developed a grounding in the rationale and structure of the real estate development process, particularly as it applies to affordable housing and community economic development;
- ❑ Extended those concepts by introducing and practicing the basic techniques of financial analysis as applied to urban real estate;
- ❑ Broadened those competencies through practice and group work that explores current strategies in development finance from both a quantitative and non-quantitative perspective.

### **Requirements**

ASSIGNMENT	SHORT DESCRIPTION	Grade	DUE
1. TAKE-HOME EXERCISES	These short homework assignments will help students to hone their research and analytical skills. Exercises will be collected at the beginning of the class period in which they are due.	30% (10% and 20%)	2/13 4/3
2. MID-TERM EXAM	An in-class exam that will test student abilities on basic financial concepts and techniques.	20%	3/13
3. FINAL PROJECT	Students will work in small teams and be provided with information and materials regarding particular community development projects in Chicago.  Each team will conduct a financial analysis of the project and at the end of the semester, will hand in a redevelopment plan, market analysis, development and operating pro forma. Each individual will be responsible for a write-up of the project but the entire team will present its final report to the class in a mock public hearing.	50%	5/8

### **Required Materials**

It is essential that all reading be completed in advance of each class. All readings may found online at the course Blackboard site.

Students should purchase a Hewlett Packard 12-C financial calculator, which is the best widely-available calculator for real estate financial analysis. It is available at Radio Shack, other stores where consumer electronic goods are sold, and on-line at secondary markets such as Ebay. The calculator needs to be purchased by the end of January. Other models are also available; students purchasing alternative models should be sure to buy one that can calculate amortization, constant mortgage payments, net present values and internal rates of return. Students should bring their calculators to all class meetings.

Students are expected to be proficient Excel users as class time will not be spent on the basics (e.g., inserting simple addition/subtraction/multiplication formulae in cells, labeling columns and rows). Students without significant Excel experience should consider registering for a free workshop through ACCC (<http://www.uic.edu/depts/accc/workshops/register.html>).

## Course Outline

### **– Part One: The Development Process –**

#### Week 1 (January 16): Introduction to the Course

##### Readings

- ❑ Carr, James H. 1999. Community, capital and markets: A new paradigm for community reinvestment. *NeighborWorks Journal* (Summer): 20-23.

#### Week 2 (January 23): Developers, the Development Process & Risk

##### Readings

- ❑ Miles, Mike E., Haney, Richard L., and Gayle Berens. 1995. *Real Estate Development: Principles and Practice*. Washington, DC: Urban Land Institute. Chapter 2, "Developers and their partners", pp. 15-30.
- ❑ Miles, Mike E., Haney, Richard L., and Gayle Berens. 1995. *Real Estate Development: Principles and Practice*. Washington, DC: Urban Land Institute. Chapter 4, "Real estate and the financial markets", pp. 53-64.

#### Week 3 (January 30): Real Estate Market Analysis

##### Readings

- ❑ Lefenfeld, Bob. 2001. Market analysis basics: Elements of a good study. *Multifamily Trends* (Summer): 21-23, 50-51.
- ❑ Miller, William, Jaeger, John, Lissner, Gail, and Eugene Stunard. 2000. Chicago's Residential Resurgence *Urban Land* (September): 1-8.
- ❑ Brueggeman, William. 2002. Single-family housing: Demographics, "bubbles", and changing demand. *Real Estate Finance* 19 (2): 5-12.
- ❑ Brueggemann, William, Fisher, Jeffrey and Stone. 1988. *Real Estate Finance*. New York, NY: McGraw Hill. Chapter 14, "Valuation of income properties", pp. 397-410.

#### Week 4 (February 6): Development Budgets

##### Readings

- ❑ Community Development Research Center. 1996. Glossary of development terms. In *Bank-Ability: A Practical Guide to Real Estate Financing for Nonprofit Developers*. New York, NY: Robert J. Milano Graduate School of Management and Urban Policy, New School for Social Research.
- ❑ Hecht, Bennett. 2006. *Developing Affordable Housing*. New York, NY: John Wiley. Chapter 4, "Project feasibility and total development costs", pp. 35-68.
- ❑ Hecht, Bennett. 2006. *Developing Affordable Housing*. New York, NY: John Wiley. Chapter 5, "Determining Projected Income and Expenses", pp. 69-84.

**– Part Two: Debt Financing & Real Estate Investment –**

Week 5 (February 13): Underwriting & Feasibility

**– Assignment #1 Due in Class –**

Readings

- ❑ Miles, Mike E., Haney, Richard L., and Gayle Berens. 1995. *Real Estate Development: Principles and Practice*. Washington, DC: Urban Land Institute. Chapter 6, "The Successful Loan Application", pp. 83-100.
- ❑ Hecht, Bennett. 2006. *Developing Affordable Housing*. New York, NY: John Wiley. Chapter 6, "Raising Capital to Meet Total Development Costs", pp. 87-107.
- ❑ Hecht, Bennett. 2006. *Developing Affordable Housing*. New York, NY: John Wiley. Chapter 11, "Enhancing the Feasibility of an Affordable Housing Project", pp. 317-360.

Week 6 (February 20): Mortgage Mechanics

Readings

- ❑ Miles, Mike E., Haney, Richard L., and Gayle Berens. 1995. *Real Estate Development: Principles and Practice*. Washington, DC: Urban Land Institute. Chapter 5, "Discounted Cash Flow Analysis", pp. 65-76.
- ❑ HP-12C, Owner's handbook, pp. 32-56, 124-135.

Week 7 (February 27): Discounted Cash Flow Analysis

Readings

- ❑ HP-12C, Owner's Handbook, pp. 57-70.

Week 8 (March 6): Lab Session (meet in Computer Lab)

Week 9 (March 13): Mid-Term Exam

**– Part Three: Applications & Development Strategies –**

*Week 10 (March 20): Gap Financing*

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Readings

- ❑ Hecht, Bennett. 2006. *Developing Affordable Housing*. New York, NY: John Wiley. Chapter 7, "Sources of Capital: Loans", pp. 107-166.
- ❑ Quercia, Roberto G., Rohe, William M., and Diane K. Levy. 2000. A new look at creative finance. *Housing Policy Debate* 11 (4): 943-972.
- ❑ Community Information Exchange. 1994. Deals from Hell: How Creative Nonprofits Pull Off Affordable Multifamily Housing with ONLY 11 Funders. Strategy Alert #41. Washington, DC.

*Week 11 (March 27): No Class, Spring Break*

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*Week 12 (April 3): Site Visit*

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**– Assignment #2 Due–**

*Week 13 (April 10): Equity Financing*

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Readings

- ❑ Hecht, Bennett. 2006. *Developing Affordable Housing*. New York, NY: John Wiley. Chapter 8, "Sources of Capital: Grants", pp. 225-244, and Chapter 9, "Sources of Capital: Equity", pp. 245-265.
- ❑ Enterprise Foundation. 1997. *Low-Income Housing Tax Credits: An Introduction and Financial Underwriting of LIHTC Projects*. Columbia, MD.
- ❑ McClure Kirk. 2000. The Low Income Housing Tax Credit as an aid to housing finance: How well has it worked? *Housing Policy Debate* 11 (1): 91-114.

*Week 14 (April 17): New Developments in Inner-City Investment*

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Readings

- ❑ Wayman, Carol. 2004. *Building Blocks 2004: The New Market Tax Credit*. Washington, DC.
- ❑ Weber, Rachel. 2004. Tax Increment Financing in Theory and Practice. In *Financing Economic Development for the 21<sup>st</sup> Century*, Sammis White, Richard Bingham and Edward Hill, eds. Armonk, NY: M.E. Sharpe, Inc.
- ❑ Robert Simons and John Brennan, "The Development of Inner-City Retail Niche Markets" <http://urban.csuohio.edu/~robby/610class/retail.pdf>

*Week 16 (April 24): Work Session*

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*Week 16 (May 1): Group Presentations*

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**– May 8: Final Projects Due by Close of Business –**