

## **COMMERCIAL/INVESTMENT REAL ESTATE FINANCE & ECONOMICS**

**Objectives: This 3 hour class is a deep dive into valuation, various returns analysis, and holding period expectations in light of dynamic market conditions. This class is ideally suited for real estate investors, brokers and other fiduciaries actively managing, advising, and brokering the disposition of realty assets.**

**After completing the class, students will gain additional financial and economic skills to adequately evaluate market risks and opportunities for their clients.**

- I. Defining Investor Performance Objectives in Light of Macro/Micro Data (0:50)**
  - A. Income or Investment Growth?**
  - B. Term Interest Rate Structure**
  - C. Capital Flows, Foreign Interest**
  - D. Discount Rate & Risk Free Rate**
  - E. Cash, Stocks, Bonds or Real Estate?**
  - F. Hot MSAs and why?**
  - G. Market cycles**
  - H. Compressed Cap Rates and High Valuations?**
  - I. Property Types (i.e. industrial, office, etc.) for Future Growth?**
  - J. Holding Period?**
  - K. Exit Strategy?**
  - L. Liquidity**
  - M. Market equilibrium? Supply?**
  - N. Absorption rate?**
  - O. Vacancy and Rent Rate?**
  - P. Lease Concessions**

**II. Ownership Structures (0:05)**

- A. TICs
- B. REITs
- C. DSTs
- D. JV, Partnership, Corporation, LLC, Trust, Proprietorship

**III. 10' Break**

**IV. Setting Realistic Expectations for Returns in Light of Macro/Micro Data (0:55)**

- A. Cap Rates
- B. ROIC
- C. Holding Period
- D. Effects of leverage on returns
- E. NPV and IRR
- F. ROE
- G. ROI
- H. NOI
- I. Opportunity Cost of Capital
- J. Cash-on-Cash
- K. After Tax Implications on Value
- L. Reversion cash flows and depreciation recapture

**V. Development to lease-up overview (0:15)**

- A. Feasibility Analysis - Site selection (highest and best use), Qualified Opportunity Zones and PIDs (Texas)
- B. Pro Forma/Operating Costs, reserves and management fees
- C. Potential Gross Income based on rent comps analysis

- D. **Vacancy allowance projections**
- E. **Financing**
  - 1. **Mezzanine**
  - 2. **Preferred Equity**
- F. **Lease Terms**
- G. **Tenant concessions**

**VI. 10' Break**

**VII. Capital Structure Overview - Debt and Equity Structures and Effects on IRR (0:10)**

- A. **Private (hard and soft money)**
- B. **Syndicated debt**
- C. **Commercial Bank debt**
- D. **Ability to Rollover**
- E. **Rate sensitivity**
- F. **Mezzanine and Preferred Equity**
- G. **DSCR**

**VIII. PPP – Public, Private Partnerships (PIDs in Texas) (0:05)**

**IX. 1031 Exchange Opportunities – Active and Passive (0:20)**

- A. **1031 Like-kind property exchange process**
- B. **DSTs**
- C. **IRC 721 UpReits**
- D. **Qualified Opportunity Funds**