BSBA Goals

BSBA students will graduate being Effective Communicators, Critical Thinkers, Able to Analyze Ethical Problems, Global in their perspective, and Knowledgeable about the essentials of business. This class contributes to those goals through its student learning outcomes.

1. Administrative Information

Time and location: Mondays 7:00-9:40pm, GMCS 329
Instructor: Xudong An, Ph.D.
Associate Professor of Finance and Endowed Professor of Real Estate
SSE 3316
619-594-3027
xan@mail.sdsu.edu
Office Hours: Wednesdays 2:30-3:30 PM or by appointment

2. Course Goal and Objectives

This course exposes undergraduate students to concepts, theories and industry practice in real estate finance. It also introduces analytic methods used for real estate finance and investment decision making.

The financing of real estate is one of the largest and most important components of the US financial system. During 2002-2007, an average of $2.8 trillion mortgages have been originated annually to finance residential properties, and another $400 billion per year commercial mortgage loans have been made to finance commercial real estate. In the second quarter of 2009, the volume of outstanding mortgage related securities ($8.2 trillion) is even higher than those of the Treasury securities ($6.8 trillion) and corporate debt securities ($3.9 trillion) (Federal Flow of Funds). However, the recent mortgage market crisis has triggered a global financial market crisis and a recession in U.S. Over 300 mortgage lenders have failed, and financial institutions have recognized subprime-related losses or writedowns exceeding $750 billion as of November 2008. The United States has lost over 6 million jobs since the recession began in December of 2007.

The primary goal of this course is to help students acquire the knowledge and develop the analytical skills of real estate finance for jobs in the real estate development, brokerage, mortgage banking and investment banking industries. The main topics covered in the course include mortgage products, mortgage banking, secondary mortgage market and mortgage-backed securities (MBS), financial leverage and commercial real estate finance, and REITs.

Upon successful completion of the class, students are expected to be able to:

1) Identify different types of mortgages available in the marketplace and explain their characteristics;
2) Calculate fixed-rate mortgages (FRM) and adjustable-rate mortgages (ARM) (e.g. monthly payment, amortization and effective borrowing cost) and make a rational choice among various mortgages based on the calculations;

3) Identify the major players in the US secondary mortgage market and explain how the market is functioning?

4) Analyze the impacts of the recent mortgage market crisis on financial markets and on the US economy;

5) Compare different sources of commercial real estate financing (both the debt side and the equity side) and analyze how leverage affects risk and return;

6) Conduct real estate investment analysis and make investment recommendations accordingly.

3. Course Organization and Requirements

The course is a combination of lectures, discussions, case studies, guest presentations and student presentations. You are expected to read the textbook chapters and readings before each class. To raise questions and to participate in class discussions are critical in your success in this class.

There will be two mid-terms and a final. Exams will be based on materials from both the lectures and the readings. In addition, there will be two problem sets and a course project. Detailed requirements on the course project will be distributed within the first two weeks of classes.

The focus of the course is on the economic and financial underpinnings of the real estate finance market. However, the problem sets and exam questions involve the calculations of present values and annuities using spreadsheets, so basic skills in using Excel are required.

4. Grading

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<tr>
<th>Component</th>
<th>Percentage</th>
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<tr>
<td>Midterm 1</td>
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<td>Midterm 2</td>
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<td>Final Exam</td>
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<td>Course project</td>
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<td>Class Participation</td>
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According to university grading policy, “[u]ndergraduate grades shall be: A, outstanding achievement; B, praiseworthy performance; C satisfactory performance; D, minimally passing and F, failing. The grade for average undergraduate achievement shall be C.” I will be using plus or minus grades.

5. Textbooks and Readings


There are also required readings listed in the “Class Meetings” section. They are available online.

6. Blackboard Course Information Web Site
To access the course materials, please go to the website https://blackboard.sdsu.edu/, login using your user ID and password, and find the course Real Estate Finance. For convenience, all course materials including syllabus, lecture notes, problem sets, answer keys to problem sets and exams will be put under the Course Documents folder.

7. Disability Statement

Any student requesting academic accommodations based on a disability is required to register with the Student Disability Services (SDS) each semester. A letter of verification for approved accommodations can be obtained from SDS. Please make sure the letter is delivered to me as early in the semester as possible. SDS is located in Calpulli Center, Suite 3100 (third floor) and is open 8:00am - 4:30pm, Monday - Friday. The phone number for SDS is (619) 594-6473.

8. Class Meetings

(See next page)
<table>
<thead>
<tr>
<th>Week / Date</th>
<th>Topics and Readings</th>
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| W1 / Jan. 26 | Introduction  
Legal Foundations of Real Estate Finance  
BF Chapters 1, 2 |
| W2 / Feb. 2 | Time Value of Money and Excel Review  
BF Chapter 3  
Mortgage Instruments: Fixed-Rate Mortgages  
BF Chapter 4  
Problem set 1 handout |
| W3 / Feb. 9 | Alternative Mortgage Instruments: ARM, PLAM and others  
BF Chapters 5 |
| W4 / Feb. 16 | Residential Financial Analysis  
BF Chapters 4-6  
Course project 1 handout |
| W5 / Feb. 23 | US Housing Finance History  
Guest Talk (TBA) |
| W6 / Mar. 2 | Residential Financial Analysis Case Study  
Review of course project 1  
Course project 1 due |
| W7 / Mar. 9 | Midterm 1 (7:00-8:30pm, GMCS 329)  
Mortgage Prepayment and Default  
BF Chapter 6 sections 2, 3  
BF Chapter 2 sections 7-10  
| W8 / Mar. 16 | Mortgage Origination and Underwriting  
BF Chapter 8 |
| W9 / Mar. 23 | Secondary Mortgage Market and Mortgage-backed Securities  
BF Chapter 19  
| W10 / Mar. 30 | Spring Recess, No Class |
| W11 / Apr. 6 | Cash Flow, NOI and Commercial Real Estate Finance  
BF Chapter 9  
Commercial Mortgage and Its Underwriting  
BF Chapter 11 sections 3-4 and Chapter 12 section 4  
Problem set 2 handout |
| W12 / Apr. 13 | Midterm 2 (7:00-8:30pm, GMCS 329) |
Commercial Real Estate Equity Financing and Joint Venture  
BF Chapter 18 sections 1-8  
Course project 2 handout  

W13 / Apr. 20  Financial Leverage  
BF Chapter 12 sections 1-3  

W14 / Apr. 27  Commercial Real Estate Investment  
BF Chapter 11 sections 3-5  

W15 / May. 4  Course Project 2 Presentation  
Review for the Final  
Course project 2 due  

W16 / May. 11  Final Exam (7:00-9:00pm, GMCS 329)
9. Useful Website Links

- Bloomberg Market Rates (http://www.bloomberg.com/markets/rates)
- CNN Real Estate (http://money.cnn.com/real_estate/)
- Commercial Property News (http://www.commercialpropertynews.com)
- National Mortgage News (http://www.nationalmortgagenews.com)
- OFHEO Housing Price Index (http://www.ofheo.gov/HPI.asp)
- Case-Shiller Home Price Index (http://www.macromarkets.com/csi_housing/sp_caseshiller.asp)
- National Association of Home Builders (http://www.nahb.org)
- National Association of Realtors (http://www.realtor.org)
- Mortgage Bankers Association (http://www.mbaa.org)
- Fannie Mae (http://www.fanniemae.com)
- Freddie Mac (http://www.freddiemac.com)
- National Association of Real Estate Investment Trusts (http://www.nareit.org)
- Glossary of Finance and Economic Terms (http://www.freddiemac.com/finance/SM/a_f.htm#A)