



RE 410: Real Estate Finance

Spring 2017

Group Project Memo

The objective of this assignment is to give you an opportunity to apply the concepts learned in class to a real-world commercial property investment case. You will have to organize yourselves into groups of three students. Each group will have to present its findings to the class during the last week of class, along with a report of at least 5 pages, excluding any appendix – the presentation schedule will be finalized later. The presentations will be for 10-15 minutes. Your grade will depend on the quality of the report and the presentation (act as if you were pitching the project to potential investors). Group members are expected to equally contribute to the good execution of the project. You will have to grade the contribution of other group members, which will be taken into consideration when assigning participation grades. Each group will have to meet with me later to update me on the progress accomplished and get assistance if needed.

The project consists of two parts. First, you will have to value a multifamily property that recently sold. The valuation should be conducted as of March 31st, 2017 using the cap rate method and the DCF method assuming a 10-year investment horizon. You will have to reconcile your value estimates and use that as the property selling price for the investment analysis that follows. You will be randomly assigned a property from the Real Capital Analytics transaction database. The valuation analysis should be supported by an in-depth analysis of the local property market and should highlight changes in market conditions since the property was last sold.

Next, you will have to assume that the owner of the property is willing to sell the property at the estimated price. You are now tasked to evaluate the property as a potential investment for a wealthy client of yours who will personally fund 25% of the property value, the remaining portion being financed with debt. Note that your client does not have any comparative advantage in owning or managing the property. You are asked to develop an investment and financing strategy for your client whose income tax bracket is 28%. The proposed financing structure should ensure that the various providers of capital earn appropriate risk-adjusted returns on their investments.