

PRINCETON UNIVERSITY
Woodrow Wilson School of Public and International Affairs

WWS 528b (Spring 2008)

URBAN ECONOMIC DEVELOPMENT: Property Development and Finance

Taught by Tom Lussenhop (WWS MPA/URP '87)

lussenhop@dca.net

215 266 0499

Course Objective

This course will provide an overview of urban property development/redevelopment and financing. In addition to an introduction to professional aspects, the course will also explore relevant historical, political and social dimensions as well as touch on important urban design and planning topics. The objective is to offer a holistic understanding of urban property development and finance as well as basic facility with the relevant tools--financial, legal, design, among others.

Course Overview

A WWS course on urban property development and finance should, in my view, attempt to convey the expanse of the topic as encountered in professional life. At the same time, the course material should be tethered to academic work from a variety of appropriate disciplines. The reading list and special topics are an effort to this end. I hope that they will be augmented, at the suggestion of students and others, as the course proceeds.

With 20 years (WWS URP '87) of practical experience in this field, my approach in this course is, of course, encumbered by innumerable biases. These bias are reflected in the general themes of the course

First, we will focus on development issues of densely populated American cities. There are recent changes--reversal in population decline, for example--underway in places like Newark, Philadelphia and New York that make the study of development and finance issues in such places extremely interesting and quite different from the last 60 years.

Urban property development must be constantly mindful of urban planning and design principles. Urban development, unlike most suburban development, is not an isolated exercise in creating a self-sufficient island (as in a suburban office "park") but, as Rykwert notes, the knitting and extension of a dense, worn fabric of uses, history and symbolism. Practitioners of urban development must be fluent with the language that designers and planners have generated to analyze and guide proposed changes to urban form.

This is a course mainly about development pursued by private-sector actors. Thus, market-based, economic realities of property development must be foremost in our minds. In the end, development is about integrating a wide variety of inputs and interests and forging a lasting, economically viable project. Economic success is not the only factor, but without it, there is no project.

Grading Criteria

Class participation (30%) and presentations/assignments (30%) will constitute 60% of the basis for course grades. The scope, rigor and quality of PDPs (see class 5) will form the balance.

Course Reading List

A preliminary reading list is included below. Additional reading will be specified as the course proceeds. The list is a mix of academic, professional and popular readings. Some of the material is business-oriented so forgive the occasional “You, too, can get rich” tone; it is nonetheless useful information.

Other Course Requirements

Working knowledge of Microsoft *Excel* and *Powerpoint* is needed. Access to a digital camera will be needed, too, as is a simple financial calculator such as the HP 12C. As for math skills, we will be introducing and using basic financial formulas and concepts. They don’t require much more than algebra skills to understand at their fundamental level. We will master these in class using Linneman (pp. 198 to 225), the principal real estate finance text used in MBA coursework at the University of Pennsylvania’s Wharton School. It is a clear and engaging book.

PLEASE NOTE ALL READING IS TO BE DONE PRIOR TO THE CLASS FOR WHICH IT HAS BEEN ASSIGNED.

Course Outline

Class 1 (February 4) Urban Neighborhoods and History

- Part 1 Student/Instructor Backgrounds and Interests
 Course Objectives and Overview
- Part 2 Overview of Northeastern American Urban History: The Rise and Decline
 of Decline
 Case Study: Development History of West Philadelphia: 1900 to 2008
- Readings: Fogelson (chapters 4 to 7 plus epilogue). Legates/Stout (writings by
 Jackson, Fishman and Mumford, pages 61 to 89). Warner (chapters 8 to 10).
- Assignment: Prepare a 10 to 15 minute Powerpoint presentation **(to be presented at the
 next class session, February 11)** on a city neighborhood(s) of your choice
 that succinctly summarizes its development history and explains its current
 state.

Class 2 (February 11) Analysis of Urban Form and Design

Urban property development requires an understanding of a given property's form and the relationships it has with its setting. These relationships have a powerful impact on its development prospects. There is a huge body of theory and literature on this topic—urban form and design—and I have included several basic texts. This part of the class will focus on an understanding of how developers, designers and planners analyze and, importantly, communicate their understanding of a property's setting, form, design and potential.

Part 1 Student Presentations and Discussion

Part 2 Analyzing Urban Form and Design: Presentation and Class Discussion

Readings: Selections TBD from Lynch (1960), Lynch (1984), Jacobs, Whyte, Alexander et al

Assignment: Take a one block area of Princeton (or anywhere you wish) and provide a 10 to 15 minute Powerpoint presentation that analyzes the area (each block front) in the terms of urban forms and design.

Class 3 (February 18) – Urban Land: Value, Value Creation and Transfer

The session will address basic property ownership and transfer issues. This is not a real estate law seminar but will introduce many legal concepts that are regularly encountered in property development. We will also focus on a fundamental question of profitable property development: How much is a given piece of land worth?

Part 1 Student Presentations and Discussion

Part 2 Land and Land Transfer
Zoning and Land Use Regulation
Land Valuation: Presentation by Richard Polton, *President, Value Research Associates, Livingston, NJ*

Readings: Burton. Zuckerman (chapters 4 and 5). Fischel (chapters 1 to 6). Additional material to be available on Blackboard: Sample contracts and appraisals.

City of Philadelphia property ownership, tax information, zoning, GIS and related websites:

www.brtweb.phila.gov

www.citymaps.phila.gov/citymaps/default.aspx

Class 4 (February 25) – Buildings: Construction, Renovation and Costs

Property development involves the creation of a new or renovated building, usually a lengthy 18 to 24 (or more) month process of design and construction. The design and construction process involves a wide variety of design, engineering, cost-accounting and other technical disciplines. While few developers are masters of all these, the best understand how to efficiently manage and integrate the work of many disciplines to the end of creating viable projects.

Part 1 The Process of Building Design and Construction
 Planning
 Approvals
 Documentation and Permitting
 Construction Procurement
 Construction and Cost Management
 Opening

Part 2 Case Study: Hotel Development in Philadelphia. Guest will be Sam Olshin, AIA, *Principal with Atkin, Olshin Schade Architects, Philadelphia*

Reading: Liebing (chapters 1-6) followed by Brand (skim this fun and engaging book...you will end up reading the whole thing). Plans and related information on the case study will be posted on Blackboard.

Assignment: Review Linneman Chapters 1 to 9 and Prerequisites I, II and III (pages 198 to 225). Additional material to be available on Blackboard.

Class 5 (March 3) - Property Economics

Investment properties (property owned by profit-seeking owners as opposed to households, institutions, etc.) have revenues and expenses that are, at least categorically, comparable from property type to type (office building, apartment building, etc.). This session will focus on the micro-economics of investment property and the concepts and tools used to value and finance them. The real estate industry uses the term “property-level” to refer to analysis that focuses at the most basic level, a single property (as opposed to an aggregated, multi-property portfolio level).

Part 1 Property-Level Pro Forma Analysis

Part 2 Property-Level Financial and Investment Analysis
 Discussion of Assignment

Assignment: Find a real-world project that interests you and draft a two-page development concept. We will use the next two sessions to add financial depth to your concept. Each student (or group of students, depending on

class size) will develop the concept into a comprehensive Property Development Plan (PDP), the principal assignment for the course.

Class 6 (March 10) - Property Development Process – Inception to Feasibility

“To understand the city as dynamic and three-dimensional, to follow and inflect its process of self-generation, to knit and extend its fabric requires a human discipline, an understanding of how built forms are transformed into image by experience. “Make no small plans,” Daniel Burnham, the author of the vast Chicago plan of 1909 is quoted as saying, “they have no magic to stir men’s blood.” It is not intoxication and grandiloquence we need now, but sobriety and effective action. Therefore, make little plans, say I—and lots of them”. (Rykwert 2002, page 246)

Part 1 Characteristics of Urban Property Markets
 Demand
 Intense Competition for Property
 Barriers to Entry: Approvals and Community Involvement
 Corruption, Speculation and Other Distortions
 Institutional “Clusters”: Universities, Health Care and Cultural Institutions

Part 2 Supply Side Issues in Urban Property Markets:
 Property Types
 Housing
 Retail
 Office

Readings: LeGates (Michael Porter essay, p. 274; W. Thompson, p.266). Leinberger (Chapter 3). Fischel. (chapters 11 and 12). Zuckerman (chapter 16).
 Additional material on Blackboard (urban corruption issues, etc.)

Assignment: Develop a pro forma and development cost summary for your PDP.

(March 17) – Spring Break

Class 7 (March 24) – Property Development – Financing, Marketing and Exit

This session focuses on marketing and financing of property. There is also discussion of the final phase of property development: Sale of the property or, as the industry calls it, the “exit strategy”.

Part 1 Presentation and Review of Student Project Pro Formas

Part 2 Buying Sheetrock, Buying Money
 Sales and Marketing Efforts for Different Property Types
 Exit

Guest speaker will David J. Adelman, *President and CEO, Campus Apartments, Philadelphia*

Readings: Linneman (chapters 11 to 20). Downs (chapters TBD). Zuckerman (chapters 12 to 14). Additional material (sample debt term sheets, deal structures, etc.) to be available on Blackboard

Assignment: Draft a 3 to 4 page outline of your PDP.

Class 8 (March 31) – Topics in Property Development: Investment Capital with Social Objectives

Since the beginning of the 20th century, governments here have debated the goal of “affordable” housing for all as an important social objective. This session will focus on financial aspects of the American experience and the most recent trend of using market forces (“tax expenditure” means) to achieve these ends. We will also focus on non-governmental sources of investment capital. (This session will be conducted at locations TBD in Newark, NJ).

Part 1 Class Review of PDP Outlines
 Overview of the “Affordable Housing” Problem
 Financing Affordable Housing
 Presentation by Susan Lenz, (*WWS '86*), *Principal, Lenz Enterprises*

Part 2 Alternative Sources of Capital for Non-Residential Investment with Social Objectives
 Presentation by John Kinghorn, *Vice President for Social Investment, Prudential Insurance Company of America*

Readings: Readings TBD.

Assignment: Work on PDP.

Class 9 (April 7) – Topics in Property Development: Urban “Anchor” Institutions

Large, non-profit institutions (universities, health care systems, cultural institutions, etc.) make up a hugely important portion of many cities’ economic, cultural and leadership infrastructure. In the 1970s and prior, leadership circles in many American cities was populated by corporate CEOs. Today, these circles have significantly dissipated and been reformed by institutional leadership. These leaders and their institutions have a huge impact on property markets in most major American cities.

Part 1 Case Study: Structure of the Institutional Sector in Philadelphia

Part 2 Presentation by Dr. Lawrence P. Goldman, (*WWS MPA '69, PhD '76*), *President and CEO, NJ Performing Arts Center, Newark*

Readings: Rodin, Perry (skim), Econsult, University City District

Assignment: Work on PDP.

Class 10 (April 14) – Topics in Property Development – Urban and Suburban Retail (Site Visits)

This class will be devoted to a “laboratory” on urban and suburban retail prototypes. Retail real estate makes for great *en vivo* investigation since they are open to public view (unlike office buildings or housing). We will perform dissections of selected suburban and urban centers in the Philadelphia region.

Readings: Shoup. Zuckerman (pages 646 to 657). Additional material to be available on Blackboard (MIT Center for Real Estate PDFs).

Class 11 (April 21) – Topics in Property Development – To Be Determined by Class Interests

Class 12 (April 28) – Presentation of Student PDPs

We will use this final session for PDP presentations and course wrap-up.

PRELIMINARY READING LIST

- Alexander, Christopher *et al.*, *A Pattern Language: Towns, Buildings, Construction*. New York: Oxford University Press, 1977.
- Brand, Stewart, *How Buildings Learn: What happens after they're built*. New York, NY: Penguin Books, 1994
- Burton, Virginia, *The Little House*, Houghton Mifflin, New York, NY, 1942
- Downs, Anthony, *Niagra of Capital*, Washington: Urban Land Institute Press, 2008.
- Econsult Corporation, *The Economic and Fiscal Impact of the University of Pennsylvania*, Philadelphia: Econsult Corporation, 2006.
- Fischel, William A., *The Economics of Zoning Laws*. Johns Hopkins University Press, Baltimore, 1985.
- Fogelson, Robert M., *Downtown: Its Rise and Fall, 1880 to 1950*. New Haven, CT: Yale University Press, 2001.
- LeGates, Richard T. and Stout, Frederic (editors), *The City Reader, Fourth Edition*. London: Routledge Press, 2007.
- Leinberger, Christopher B., *The Option of Urbanism: Investing in a New American Dream*. Washington DC: Island Press, 2008.
- Liebing, Ralph W., *Construction of Architecture: From Design to Built*. Hoboken, NJ: John Wiley and Sons, 2008.
- Linneman, Peter, *Real Estate Finance and Investments: Risks and Opportunities, 2nd Edition*. Philadelphia: Linneman Associates, 2004.
- Lynch, Kevin, *Good City Form*. Cambridge, MA: MIT Press, 1984
- Lynch, Kevin, *The Image of the City*. Cambridge, MA: MIT Press, 1960
- Jacobs, Jane, *The Death and Life of American Cities*. New York: Random House, 1961.
- Perry, David C., and Wiewel, Wim (editors), *The University as Urban Developer*, Boston: Lincoln Land Institute, 2005.
- Rodin, Judith, *The University and Urban Revival: Out of the Ivory Tower and Into the Streets*. Philadelphia: University of Pennsylvania Press, 2007.
- Rykwert, Joseph, *The Seduction of Place*, New York: Random House, 2002.

Shoup, Donald, *The High Cost of Free Parking*, Chicago: APA Planners Press, 2005.

Warner, Sam Bass, *The Private City – Philadelphia in Three Periods of Its Growth*, Philadelphia: University Pennsylvania Press, 1968.

Whyte, William H., *The Social Life of Small Urban Spaces*: New York: Project for Public Spaces, 1980.

University City District, *Report Card on University City – 2007*, Philadelphia: University City District, 2007. (see www.ucityphila.org for a downloadable PDF).

Zuckerman, Howard A. and Blevins, George D., *Real Estate Development Workbook and Manual*. New York: Aspen Press, 2003.