

The out-of-class writing assignments have several objectives. One is to familiarize you with the terms used in investment analysis. Another is to familiarize you with sources of market data and how data are presented. A third is to provide you practice in integrating financial calculations with background material and analysis to develop an entire investment report. An overriding goal is to have you practice and improve your business communication skills.

All your out-of-class writing assignments this term will center on the Atlanta office market. Each of the memo writing assignment requires you to research something about the market and tell your boss what you found in no more than 2 typewritten pages, including tables and/or graphs. The information you gather for the memos will be used as the inputs to your financial analysis in your project. The project assignment requires you to write a complete investment analysis of one property for a potential buyer. It will include a cover letter and a business report.

To efficiently use your time, choose one area of Atlanta to focus on. The class may choose to all analyze an office building in one area of the city so students can share data collection and research. Look for the data needed to write all the memos and the report while working on the first assignment to save time. Share sources of information with your classmates. Use the folder of information available outside my office. Two sources of data are sufficient for each memo. Be sure to write down the source of the information and credit that source in your papers. Try first to find data specific to your submarket. When that is not available, use Atlanta metro area data. When that is not available use regional or national data. Do not be disappointed or frustrated when you find conflicting forecasts or numbers that do not match up well. Real estate data is not centrally compiled in a standardized format. People use different terms and formulas. New information is constantly making last week's information outdated. People who are reporting information have their own objectives that may lead them to interpret numbers optimistically or provide only gross numbers without the details. There are no "right" numerical answers to these assignments. The instructor will be looking for "reasonable" numbers with logical explanations that indicate you understand the data.

All of us can improve our communication skills. These assignments will focus on the process of writing a draft, reviewing the draft, then improving the paper as a final product. A graduate language assistant has been assigned to this course. You will submit your first draft of each assignment to him to receive advice on your organization, style, and writing logic. You can then use this feedback to revise your draft and submit the final product to the instructor. In addition, the instructor will review the draft report to provide feedback about missing information or major missteps. Electronic submissions in Word are preferred for all except the final report.

You will also practice your computer and public speaking skills with the report. The report will require preparation of a cash flow statement that most easily prepared as an Excel spreadsheet. Every student will present his/her findings to the potential investor in the form of a presentation. Use of Powerpoint in the presentation is strongly encouraged.

These assignments require you to assume the role of an entry-level analyst with an investment advisory firm. All these assignments are given to you by your boss. Write them to the boss, not to your college instructor. The report is being prepared for a potential investor. Write the cover letter to the investor. Write the report in professional business tone. Make the presentation to the investor, not students in a college classroom.

Memo 1

The boss asks you for an overview of Atlanta's economy relevant to the office market. Explain to him what has been happening historically and what is forecasted for the future for the Atlanta area. He is interested in the key drivers of demand for rental offices—jobs and employees, especially in the types of service industries that use a lot of office space. So, tell him about the Atlanta economy in general (past, current, and expectation) and employment (especially office type jobs) in particular. Don't get into a discussion of the office market itself—just the factors that are behind the demand for office space.

Memo 2

The boss asks you to prepare a memo giving an overview of the office market in one Atlanta submarket. What is the current supply? What size and type buildings are they? Is there any space under construction? What has been the annual absorption rate of office space? What are current and expected vacancy rates? What are current rents? Have rents been rising, dropping, or steady? Are landlords giving any concessions or allowances with those rents? What is expected for the future? What operating expenses are the tenants paying? What operating expenses are the landlords paying? What is a typical operating expense ratio for an office building in Atlanta?

Memo 3

The boss asks you to prepare a memo discussing market value and recent prices paid for office buildings in your submarket. What prices have been paid recently? How does that translate into capitalization rate and price per square foot? Have office property values have been appreciating or depreciating and by how much in the last few years in this area? What can be expected in the near future?

Case Report: Office Building Case

Your boss has asked you to analyze the following office property as a potential investment for a client. The client wants to know whether this property would meet his investment goals, whether your company recommends he purchase the property, and at what maximum price. Assume you are not evaluating any other alternative investments at this time for this client.

You are given some flexibility to locate the property anywhere you want in metro Atlanta, assume it looks anyway you want, and give it any specific attributes you like. Just do not make the project a luxury building in the highest rent district, a specialty building, or anything else that would complicate your work. I suggest the class or groups within the class agree to one location so you can split up the research and share information as you work on the project. I also encourage working together to develop spreadsheets and presentation templates so long as the final report is the individual student's work.

Client

Dan Smith has just inherited \$500,000 that he wants to invest in an office property. At age 40 Dan already owns his own home and has no outstanding debts except his home mortgage. He has a bright future as an information systems specialist with a current salary of \$90,000 per year. He is in the 28% federal income tax bracket for ordinary income and 20% for long-term capital gain. (Assume no state or local taxes. Ignore alternative minimum tax.) Dan has participated in his company's 401-K plan and has a healthy retirement nest egg accruing. He has \$200,000 outside his retirement plan invested in a mix of stocks and bonds. He is looking for a real estate investment that would provide him with positive cash flow, income tax deductions, and appreciation over a 5-year investment period when he would sell the property. As this is his first large real estate investment, Dan has concerns and wants the investment carefully explained to him.

Property

You may assume the office property is located in any part of Atlanta that you want to focus on. I'd suggest a group decide on the same area to share the research work. Your choice of location will determine the neighborhood, access, linkages, market rent, vacancy rate, and land value you should use.

The property is located on 1.25 acres. The one building on the property contains 15,000 square feet of rentable area and was built in 1997. The building is in good condition and not in need of any immediate repairs or capital improvements. The land contains a surface parking lot with sufficient space for full occupancy. The property is properly zoned and has no legal or environmental problems. The tax assessor usually allocates 20% of the total value to the land.

The building is currently 100% leased. Current tenants' leases will soon be expiring or up for renegotiation, so you can use market rents in calculating the potential revenue from the project. Assume no acquisition costs besides the purchase price. The current owner's listing price is \$1,400,000. Assume that when Mr. Smith plans to sell the property he will pay approximately 4% in selling costs. Find market financing on an amortizing loan without any points. Assume no other financing costs.

Report

Prepare an investment analysis report on the office property for Mr. Smith. He wants you to generally follow the feasibility report guidelines presented in Chapter 20 of your text. The report should contain a title page, executive summary, main report divided into section with headings, financial spreadsheet, and appendix (if needed). The main report should start with an introduction and finish with a conclusion/recommendation. There is no minimum or maximum length—be concise but thorough. Label/title any tables (including your cash flow statement) or figures and place them in the report near where they are quoted. Place any background materials in an appendix at the back. Give credit in the report itself to published references, Internet publications, web sties, individuals, or anywhere else you obtained information. Number pages in the report. Staple or bind the report.

Attach a transmittal cover letter to Mr. Smith on top of the report.

In your written report you are to explain market conditions, how they lead to your financial estimates for the property (rents, vacancies, expenses, etc.), any assumptions you make, what your financial analysis reveals, what the investor's goals are, and whether this is a good investment for this investor and why. (You do not have to provide the level of physical and legal detail that would be expected in an appraisal of the property.)

Use the market information you have gathered for the memos to BRIEFLY discuss the general economic conditions in Atlanta and expectations for the future that could affect office supply/demand, rents, and values. Briefly discuss your submarket. Mention such important factors such as linkages. Provide any assumptions you are making about the market in terms of growth rates, construction, inflation, etc. based on your economic analysis.

Prepare a financial analysis of the property, including a cash flow statement for the 5 year holding period, a reversion, common ratios, IRR, NPV, PI, and estimated value using an overall capitalization rate you obtain from the market. Use actual rents and vacancies from properties in Atlanta to estimate a market rent and vacancy rate to use in your analysis. Use actual quotes or industry surveys to estimate operating expenses for the property. Check with a commercial lending source to get the current rate on a loan for this property considering their maximum loan-to-value ratio and their commonly required debt service coverage ratio. Use an amortizing mortgage with no points, participation, prepayment penalty, etc. to keep the financing simple. Use your market research to determine a market overall capitalization rate to value the property. Use your market research to estimate an appreciation rate to calculate estimated selling price at the end of the holding period. Estimate a risk-adjusted discount rate that an investor such as Mr. Smith should use in evaluating an investment with this level of risk. Use Excel to prepare your spreadsheet.

Describe Mr. Smith's objectives and constraints. Compare your financial results to Mr. Smith's objectives and make a recommendation as to whether he should purchase this investment, under what conditions, at what maximum price, etc.

Presentation

The presentation is to be made to Mr. Smith, explaining the investment and your recommendation. You choose what is the most important material to present and in what order. Your time is limited so only cover the key topics. Keep your slides simple and easy to read.

RE 4160 Memo Grading Criteria

Sufficiency of content:

Coverage of required topic – did the memo answer all the questions
Quality of data collected – is data appropriate for Atlanta office market
Sufficient data on which to base conclusions – two sources, historical/current/future

Quality of analysis:

Synthesis of data and ideas
Clearly stated interpretations from the data provided
Good support, plausible and convincing interpretation from data provided
Logical
Correct calculations of financial inputs

Quality of writing:

Concise
Logical organization, headings, and transitions
Clear sentences
Appropriate voice and style for business memo to boss

Mechanics:

Correct grammar, spelling, and punctuation
Proper references to sources of information
Uses proper memo form
Meets page 2-page limit

RE 4160 Report Grading Criteria

Sufficiency of content:

Coverage of topics - investor, market, financial analysis, interpretation, recommendations
Quality of data provided – complete, appropriate for Atlanta office market
Sufficient data and calculations on which to base conclusions

Quality of analysis:

Synthesis of ideas
Clearly stated interpretations from the data provided
Good support, plausible and convincing interpretation of results
Logical
Correct calculations of financial inputs

Quality of writing:

Concise
Logical organization, headings, and transitions
Clear sentences
Appropriate voice and style for professional report to investor

Mechanics:

Correct grammar, spelling, and punctuation
Proper use of references