

JAMES A. GRAASKAMP COLLECTION OF TEACHING MATERIALS

II. CLASSES AT THE UNIVERSITY OF WISCONSIN--MADISON

K. Business 847: Management Analysis--Real Estate

3. Lecture Notes from First Day

Class Session #1
BUSINESS 847

I. Administrative detail

- A. Apology
- B. Textbook distribution - make checks payable to Real Estate and Construction Club - \$10.00 including "Corporate Real Estate" and "Sale and Leasebacks"
- C. Format of course:

Basic material of the course is contained in the reading assignments for which there will be a final exam weighted at 40% of semester grade.

Two short problem sets to be written out and handed in will be weighted at 20% of semesters grade. A research paper on a specialized aspect of industrial real estate or finance is required and will be weighted at 40% of the semester grade.

- D. RED #3 & #5 refer to anthologies of general Real Estate Department material on the reserve shelf. In addition there is a binder labeled 847 with readings specially selected for this course.

II. Basic characteristics of real estate.

- A. The layman concept of real estate is that of land, brick and mortar, and a mystical entrepreneurial technique of wild-catting and confidence games. Anybody is an expert because we all stand on real estate everyday. Small facts are no substitute for big rumors and success is directly proportional to political clout.
- B. Although in real estate, like most everything else, I would rather be lucky than smart but being smart increases the probability of being lucky more than once and remaining solvent between each lightning bolt *of success*.
- C. First of all the essence of real estate is empty space, not material solids. Real estate is ~~not~~ created as soon as we differentiate some space from the natural voids in which we live.
 - 1. Rolling a rock in front of a cave artificially differentiates space and creates real estate.
 - 2. The first improvement of ~~property~~ is a surveyors monument, whether it is a pylon on the Nile or a plat in the court house identifying some condominium space in the sky.
- D. It is not the enclosure~~x~~ but the space enclosed that is valuable. Land provides a locus, a surface with which to reference a volume of space and improvements provide a means of providing that space with desired attributes such as shelter, ~~esthetics~~, privacy, or whatever is necessary with the activity to be enclosed.
- E. Real estate is therefore space to house all manner of activities, agricultural, domestic, commercial, industrial, or recreational. Any business operation must be housed in some manner or other and ~~xxxxxx~~ the form of this housing relates to the functions performed. Therefore in industrial real estate we are concerned with the decision making process for selecting a method of housing any given corporate activity.

III.

III. The basic business strategy is to convert cash to goods for sale to accounts receivable and back to cash. Cash gives you flexibility to change your activities to meet the times, to respond to risk and opportunity. The longer the cycle of cash to cash the greater the risk and the higher the profit required. Inventory turnover and receivable turnover and working capital turnover relative to marginal sales opportunities are the basic measures of efficiency. Capital payback is often measured in months and not more than five years.

- A. In this traditional view of the commercial cycle, real estate is about the worst investment you can make as it is the fixed asset with the longest payback period, the most inflexibility, the highest cost and the least marketable of any resource in the commercial-industrial cycle.
- B. On the other hand more people have become millionaires because of real estate than any other single business enterprise and two-thirds of the nation's wealth is represented by real estate assets. Indeed more than one-half of all the new capital created from savings each year is reinvested in real estate.
- C. This course is going to attempt to reconcile this apparent contradiction by using corporate real estate as an excuse to talk about real estate in general.

IV. Since real estate is a capital asset it follows that its use in business should be essentially a rational process in decision making. In general the corporate real estate manager must take the view of a user of property and establish his own criteria for evaluating alternatives.

- A. The objectives of his organization are unique in many ways and therefore his criteria must be generated internally. He operates more like a feasibility analyst than an appraiser or broker. He is constantly attempting to judge the likelihood of satisfying corporate objectives given certain limiting constraints in any specific situation involving housing of the firm.
- B. For many years the corporate real estate function was a staff function rather than a line position. More recently many corporations have discovered their real estate mistakes have been more profitable than their marketing successes and therefore real estate is regarded as a dynamic tool in corporate strategy.
 - 1. Illustrate with Penny strategy
 - 2. Illustrate with paper-box plant near Disneyland
- C. Real estate operates within a context of much that is outside its borders and only in part by means of investments within its own turf it is possible to profit tremendously by doing nothing and letting others do everything. Unlike any other investment asset land is indestructible and does not often waste away from neglect, it is virtually fixed in supply, and the need is a multiple function of the population density.
- D. Each site is unique and immovable and cannot be precisely duplicated. Free enterprise is the art of creating imaginary or real monopolies and the nature of land makes each site a potential monopoly.