JAMES A. GRAASKAMP COLLECTION OF TEACHING MATERIALS

V. INDUSTRY SEMINARS AND SPEECHES - SHORT TERM

H. Presentations Sponsored by Other Universities

5. "Real Estate Seminar": First presented to First Chicago Corp. in Lake Forest, IL on November 16, 1973 and then sponsored by the Madison Area Technical College, March 12, 1974

Index

REAL ESTATE SEMINAR
First Chicago Corporation
Livingston House, Lake Forest, Illinois
November 6, 1973
Presented by Professor James A. Graaskamp

I. Some Basic Real Estate Attributes and Definitions

A. A space-time interface of land (public resource), people (cultural preference) and artifacts (improvements)

B. Convert neutral forces to identified decision makers - consumer, producer, and society with the planner as the arbitrator.

C. Some implications of this definition of the Real Estate process:
1. Land is an exhaustible resource and therefore a public utility.
2. Business of Real Estate is the process of converting space-time to money-time.
3. Real Estate Business is a service industry using manufactured products.
4. The space-time service product is the social terrarium and therefore of public concern
5. The money not the Real Estate is the only private property.

D. The legal concept of private Real Estate
1. Private property the residual after subtracting public rights.
2. In a service industry there is no ownership of a product - only control of a customer.
3. Twentieth Century Real Estate equity is a degree to which one controls disbursements of a captive customer.

E. Feasibility is a nonfinancial concept of matching artifact and service to a context of public priorities and customer needs.

F. Real Estate investment is "buying" a set of financial assumptions derivative of a feasible solution.

G. Risk is the variance between assumptions taken and realizations achieved, between proforma estimates and P and L realized.

II. The Systems Approach to Management and Feasibility Analysis

A. A general concept of the management process converted to Real Estate semantics

Column 1	Column 2
Values, objectives, policy	Strategic format
Search for opportunity alternatives	Market trend analysis
Selection of an opportunity	Merchandising target with monopoly character
Program to capture opportunity	Legal-political constraints
	Ethical-aesthetic constraints
	Physical-technical constraints
	Financial constraints
Construction of program	Project Development
Operation of program	Property Management
Monitoring and feedback	Real Estate research

B. Strategic format for developer-investor taking an active management role
   1. Development role assumed (see attached mimeos)
   2. Major objective
   3. Key determinants of economic success
   4. Elements of cost/price relationship where developer has some control
   5. Elements of greatest variance or slippage
   6. Devices for minimizing maximum potential loss
   7. Devices for maximizing control
   8. Developer skills or personnel of critical importance
   9. Marginal components of cost/price/profit centers

C. Strategic format for the passive investor (ie. mortgage lender)
   1. Pleasure, pain and bail-out theory of mortgage finance
   2. Incentives and the time line of financial events
   3. The ethical-aesthetic constraint for the lender

III. Real Estate Finance is the Conversion of Space-Time Events to Money-Time Events in Terms of Outlays and Receipts.

A. Elements of a project financial model
   1. Time line of financial events for investor
   2. Profit centers available within time line
   3. Capital budget
   4. Operating pattern of receipts and expenditures
   5. Financing package
   6. Basic tax strategy
   7. Selected measures of yield comparison
   8. Selected measures of risk qualification

B. A basic cash flow model defines one alternative outcome
   1. Analysis searches for capacity for variance
   2. Decisions relate to acceptable degree of variance
   3. Front door and back door approach to financial feasibility

C. Selected measures of risk
   1. Expense and default ratios
   2. Ratio of overruns to stand-by capacity
   3. Payback ratios

D. Selected measures of yield
   1. Retrospective vs. prospective (average vs. marginal rates)
   2. Cash on cash
   3. Definition of the profit center frame
   4. Problems in defining long term average yield
   5. High yields are made in the short run as a return to management not capital.

E. Cash flow density models as an analytical tool for lenders

IV. The Risk Management Approach to Feasibility and Packaging

A. Identification of elements of variance in assumptions
B. Estimating consequences to determine significant exposures to loss

C. Selection of a risk management device meeting decision maker policies
   1. Avoid
   2. Reduction of the unknown through research
   3. Reduction of variance forecast errors through combination
   4. Reduction in severity by limits on scale
   5. Shift of risk by contract
   6. Limitation of risk of maximum loss by contract
   7. Hedging of time trends by contract

D. Distinguishing between static risks and dynamic risks for purposes of control
   1. Static risks can only cause a loss and should be controlled mechanically.
   2. Dynamic risks can produce a profit or a loss and should be controlled through management incentives.

E. Monopoly is a major real estate risk management device
   1. Profiling the merchandising target
   2. Naming the prospect
   3. Tailoring the product
   4. Flexibility for recycling to another target

V. Implication of Current Trends Affecting Real Estate

   A. Control of new land development plus control of auto transit means recycling of intown sites.
   B. Energy crisis will redefine linkages to utilities regionally as well as locally.
   C. Energy crisis will alter expansive character of current leisure time marketing to reduce dependency on hardware.
   D. Energy crisis will mean redefinition of the auto and all auto dependent forms of land use.
   E. Trend toward condominium and homeowners association means success of hardware is tied directly to success of group organization software.
   F. As real estate becomes recognized as a service product, fee ownership declines in significance.