

REAL 443-31, *Urban Economic Development and Real Estate Market Analysis*
Kellogg School of Management
Northwestern University
Fall Quarter 2009

Thursday, 6:30-9:30 p.m.

Instructor: Rick Mattoon

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Course overview and goals

- Why do some cities grow and other fail? Is it strategy or luck?
- What does a changing urban economic base mean for real estate development?
- How can you analyze a metropolitan economy to predict what types of real estate will be in demand?

The course is designed to link the changing economic form of urban and metropolitan areas to developments in real estate markets. In particular we will use Chicago as a lab for tracing the evolving urban economy and discuss how building prices and uses have changed to reflect changes in economic organization and industry structure.

The course will also trace differences in older and newer cities in the U.S. as well as development in international locations. At the core of the course is the belief that you first need to understand the underlying economy of a place to be able to estimate the demand for real estate. As urban economist Wilbur Thompson once said "tell me your industries and I will tell you your future".

The course will mix a use of analytical tools with case studies. Familiarity with basic microeconomics principles is required.

Readings

Robert Weissbourd and Christopher Berry, “The Changing Dynamics of Urban America”, CEO’s for Cities, March, 2004

The Economist, “A Success Story: A Survey of Chicago”, March 18, 2006.

Richard Florida, “The Rise of the Creative Class”, Basic Books, 2002

Denise Di Pasquale and William Wheaton, “Urban Economics and Real Estate Markets”, Prentice Hall, 1996 (**required reading in case packet, purchase of text is optional**)

Andrienne Schmitz and Deborah Brett, “Real Estate Market Analysis: A Case Study Approach”, Urban Land Institute, 2001

Robert Weissbourd and Christopher Berry, “Grads and Fads: The Dynamics of Human Capital Location”, CEO’s for Cities, October, 2005

Class Structure

The class format will mix lecture with student-instructor discussion. Student participation is strongly encouraged.

Grades

Grades will be based on a mid term and one 20 page paper in conjunction with a group project. Class participation will also receive significant weight if a student is borderline in determining their grade. The weights for grading are as follows:

Midterm	50%
Paper	50%

Exam

The exam will consist of short essays and will last 2 hours. The mid-term will cover readings and lectures up to the date. It will be taken in class and is a closed notes exam. The mid-term will be held on October 29.

Paper (Group Project)

The project is intended to assemble a group of analysts who will advise a head of a company on the real estate development potential of a particular type of development (retail, industrial, office, etc) at a specific site in a specific city neighborhood. The paper should describe the economic base of the community. The market area for the proposed development should be described as well as any special considerations that the type of

development might have for the neighborhood (for example a big box retailer in a low-income neighborhood). The paper should explicitly examine four major types of risk associated with real estate projects—market, financial, administrative and political. The paper can be no longer than 20 pages, double-spaced and will be due at the start of class on December 10. Groups will present their findings to the class during the final two class sessions.

The grade for the paper will consist of 2 parts. The group will receive a common grade that will constitute 70% of the total project grade. The common grade will be based on the written paper and the class presentation of the project. The remaining 30% of the grade will be determined by each member of the group assigning a score to every other member of the group. These scores will be reported on a confidential basis to the instructor.

Class Laptop and Etiquette Policy

Laptops can only be used in the last row of the classroom. This policy will be strictly enforced. In addition, the class will begin promptly at 6:30. Punctuality is expected.

Course Outline

Week 1—September 24

Urban Economics 101—Why do cities exist? What are their advantages and disadvantages? Case study of Chicago—Is it a global city or regional capital?

Readings:

The Economist, “A Success Story: A Survey of Chicago”, March 18, 2006.

Robert Weissbourd and Christopher Berry, “The Changing Dynamics of Urban America”, CEO’s for Cities, March, 2004. pps. 6-22.

Week 2—October 1

Urban Economics 101 continued. Analyzing the factors that make cities grow—knowledge, business composition, demographics, growth form and regional connection. Describing models of urban growth both domestically and internationally. Special topic—urban growth in China

Readings:

Robert Weissbourd and Christopher Berry, “The Changing Dynamics of Urban America”, CEO’s for Cities, March, 2004. pps. 79-93.

Week 3—October 8

The role of attracting human capital in modern city economic development—does having a Starbucks on your corner really matter to your economic future? Is being a “cool city” essential to economic survival?

Readings:

Richard Florida, “The Rise of the Creative Class”, Basic Books, 2002, Chapters 13-16.

Robert Weissbourd and Christopher Berry, “Grads and Fads: The Dynamics of Human Capital Location”, CEO’s for Cities, October, 2005

Week 4—October 15

Urban Economics and Real Estate Markets: A Micro and Macroeconomic Approach. Developing tools to analyze differing property markets.

Readings:

Denise Di Pasquale and William Wheaton, "Urban Economics and Real Estate Markets", Prentice Hall, 1996. Chapters 1, 2 and 3.

Week 5—October 22

Urban Economics and Real Estate Markets continued: Residential and Non-residential development.

Readings:

Denise Di Pasquale and William Wheaton, "Urban Economics and Real Estate Markets", Prentice Hall, 1996. Chapters 4-6.

Week 6—October 29

Mid-term exam

Week 7—November 5

Case studies: office and industrial

Readings:

Andrienne Schmitz and Deborah Brett, "Real Estate Market Analysis: A Case Study Approach", Urban Land Institute, 2001, Chapter 2 and Chapter 4

Week 8—November 12

Case studies in real estate development— retail, residential

Readings:

Andrienne Schmitz and Deborah Brett, "Real Estate Market Analysis: A Case Study Approach", Urban Land Institute, 2001, Chapter 3 and Chapter 5

Week 9—November 19

Case studies in real estate development—commercial, retail, residential, hotels

Readings:

Andrienne Schmitz and Deborah Brett, "Real Estate Market Analysis: A Case Study Approach", Urban Land Institute, 2001, Chapter 6

November 26—Thanksgiving Break

Week 10—December 3

Group project due and class presentation

Week 11—December 10

Group project due and class presentation