

STATE OF NEW MEXICO REAL ESTATE COMMISSION
 5500 San Antonio Drive NE Suite B
 Albuquerque, NM 87109 (505) 222-9820

CONTINUING EDUCATION COURSE APPLICATION

Date 4-27-16

Title of Course: ADVANCED INCOME PROPERTY ANALYSIS	CE Hours 8	Fee \$70 (Upon Approval)
--------------------------------------------------------------	---------------	--------------------------

Approved Education Course <input checked="" type="checkbox"/> [X] Courses in: <i>Real estate law and practice; real estate financing including mortgages and other financing techniques; material specific to the regulatory, and ethical practice of real estate; and real estate related local, state and federal laws including but not limited to fair housing, the Americans with Disabilities Act (ADA), and lead-based paint disclosure.</i>	Approved Training Course <input type="checkbox"/> [] Courses in: <i>Personal and property protection for the broker and clients; using the computer, the internet, business calculators and other technologies to enhance the broker's service to the public; concerning professional development, customer relations skills, sales promotion including salesmanship, negotiation, marketing techniques, servicing the client, or similar courses.</i>	Non-acceptable courses Courses in: <i>Mechanical office and business skills such as typing; speed reading; memory improvement; language report writing; offerings concerning physical wellbeing or personal development such as personal motivation; stress management; time management; dress-for-success; or similar courses.</i>
-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

ENCLOSED WITH THIS APPLICATION ARE ONE COPY OF:

[X] student handouts (11 copies must be provided at ESC presentation)

COURSE TYPE

[X] Live lecture

List major reference materials used in the development of this course: CCIM 101,102, AND 103 manuals; 15 years of experience as a commercial broker; 8 years as commercial manager (managed 45 person staff); 20 years experience in teaching this subject to over 17,000 students, in 30 venues, and 7 states.

This course will be taught at the following locations (attach additional sheet if necessary):

Date <u> tbd </u>	Location _____
Date _____	Location _____
Date _____	Location _____
Date _____	Location _____
Date _____	Location _____

Describe the physical classroom facilities: classroom style, tables and chairs, will vary from venue to venue
The instructor(s) for the course will be: Frank W. Meyers III
Provide evidence of the instructor(s) New Mexico instructor certification, or attach instructor applications: Instructor application previously submitted, 4-26-16
How this course will serve to protect the public and increase the professional competence of the licensee: This course is an advanced course in analyzing value and yield in investment real estate. This is the type of knowledge which will be absolutely necessary to "get in the front door" with an institutional type investor (REIT's, Met Life, Chevron, etc.) The clients with whom a broker would deal in this type of information will be as well informed about the subject as the broker, so the knowledge will be integral to establishing a relationship with these types of clientele.

I certify that this course shall have significant intellectual and/or practical content and will be taught in accordance with the attached content outline.



 Signature of Instructor

4-27-16
 Date

Frank W. Meyers III

4-27-16

Instructor

Date

Course Title: Insert

Course Description: Insert a few sentences which briefly describe your course.

Learning Objectives (See attachment on Bloom's Taxonomy and Learning Levels)

Learning Level	Learning Objective
Insert Level (Words or Numbers)	Insert corresponding learning objective
Please see attached	

The following will be the means used in assessing whether the Learning Objectives have been met (Pre and post test, Q&A etc.)

Insert specific methods

Timed Outline: Describe in detail the components of the course by breaking it down into subject matter areas of no greater than 15 minutes. What will be the method of instruction or teaching technique used for each area (lecture, slides, group activities, videotape etc.)

Length in Time (15 min. increments)	Teaching Technique	Subject Matter Segment and Description
Please see Attached		

ADVANCED INCOME PROPERTY ANALYSIS

Course Description

“Advanced Income Property Analysis” is a class designed for the advanced, accomplished investment real estate broker, who has competence in calculating Internal Rate of Return, and is fluent in discounted cash flow analysis and a financial calculator.

The class starts out with the author’s approach to analyzing value and yield in investment properties. 16 “Contributing Elements to Value and Yield” are identified. These are 16 things, which can happen positively or negatively, in the ownership of any one property, which contribute to what is called the overall accumulation of wealth potential of that deal.

Then 7 methods of evaluating value and yield are discussed relative to how many of the 16 Contributing Elements are considered in their calculation. These 7 methods are: Price per Square Foot/ Gross Rent Multiplier/ Cap Rate/ Cash on Cash/ Equity Rate of Return/ Internal Rate of Return/ Financial Management Rate of Return.

Following that basic “ground laying,” there is a refresher section on IRR, complete with a 3 page case study. In this refresher, the Four Deadlies are discussed- the four most common mistakes made in calculator entry. This is a real eye opening section even for many experienced agents, and will prepare the student for the financial calculator work ahead in this course.

Then, one of the main reasons the course was written is discussed: what effect does a changing interest rate environment have on market cap rates, and values? This is a situation which everyone knows is coming- higher interest rates, and the effect this can have on investment real estate values could be devastating. This topic has been basically presented in the author’s 2 day basic “Income Property Analysis” course over the last several years, and the reaction to it was strong enough as to be the genesis of the author’s writing this new advanced course. The students will do another case study wherein they show selling the property at a cap rate higher than the acquisition cap rate, and the effect on overall yield. This is very eye opening.

Then a very thorough discussion of the Net Present Value calculation is done- complete with a case study and the practical application and usage of this very valuable tool are discussed.

The class then moves into a refresher on the Financial Management Rate of Return method- again with a case study and discussion of the very practical application and usage of this tool with “non- institutional” investors. Why FMRR is not used with institutional investors, and why it should be used with private/ non- institutional investors.

This session is followed by a very interesting analysis of a typical 2006-08 all cash Walgreen’s deal. The amazing revelation here is that in order for an investor to preserve his 5.3% after tax return on his 7% cap rate Walgreen’s deal, he will have to sell it 20 years from now at a 5.9% cap rate. When I have briefly presented this subject in my other 2 day “Income Property Analysis” class, the reaction has been unbelievable. Agents have had no idea the effect of: selling a triple net deal, 20 years down the road, with no increases in rents, paying closing costs and recapturing cost recovery, has on their overall yield. It’s devastating.

Finally there is a section on valuing current market deals. We cover the classic “pre crisis” 6-7% cap rate acquisition, that now, because of the recession, is 50% vacant, and their 5-10 year balloon on their financing is coming due. We show the procedure in valuing such assets. There is huge practical application for this knowledge in today’s environment.

All in all this is Advanced Income Property Analysis. The tools that the professional investment broker should have, day to day, are discussed in great detail in this course. So for the agents/brokers who are tired of the simple basic courses, this one will surely test their mettle.

TIME LINE AND LEARNING OBJECTIVES FOR ADVANCED INCOME PROPERTY ANALYSIS

HOUR 1- 1ST 15 minutes: Introduction regarding what analysis the students would do for me as their client in buying a \$3m office building. This section is to show how cursory many brokers are in their mathematical analysis, and how I, and other potential clients would probably not work with them. They will see that they need to do multi year after tax analyses to be totally professional. Instructional techniques here are lecture and Q and A.

2nd and 3rd 15 minutes: We begin going over the 16 contributing elements to value and yield relative to how many of them are considered in the calculation of the 7 methods of analyzing value and yield: price per square foot, gross rent multiplier, cap rate, cash on cash, equity rate of return, internal rate of return, and financial management rate of return. Instructional techniques used are lecture, Q and A, and Power Point.

4th 15 minutes: We discuss a concept I call the rubber cube concept. If you make one change in the terms of the acquisition of a property, what immediate ancillary changes will automatically happen. For instance if you increase down payment, pre tax cash flow will increase, interest deduction will decrease, tax savings will decrease, etc. Instructional techniques used are lecture, and Q and A.

HOUR 2- 1st 15 minutes: We will start a refresher on IRR, including the definition, and the doing of a full 5 year cash flow analysis on an internal rate of return basis. The instructor will go over the first page of the example showing pre and after tax cash flow calculation. Even though a pre requisite for this course is a basic working knowledge of IRR, this will totally refresh in the students' minds how to do pre and after tax cash flows. Instructional techniques used are lecture, Q and A, Power Point.

2nd 15 minutes: Instructor will continue with IRR example on second page going over calculation of closing costs and capital gains

taxes. In this section the students will re-familiarize themselves with capital gains calculations and capital gains rates. Instructional techniques used are lecture, Q and A, power point, and student manual

3rd and 4th 15 minutes: Instructor will continue with IRR example in showing key strokes for calculating the answer and the mathematical method of proving that the answer the calculator gives is actually correct- "IRR is that rate of discount at which the present values of the future cash flows is exactly equal to the initial capital investment." At the end of this example the students will then be prepared to do the small group case study they will do in hour 3. Instructional techniques used are lecture, Q and A, student manual, and power point.

HOOR 3- 1st, 2nd and 3rd 15 minutes: The students will do an IRR case study in small groups. They will make the same calculations referred to in the example, except they will be doing it on their own in small groups. At the end of this section, along with the section in HOUR 2, the students will have the knowledge base necessary to benefit from the advanced concepts, which will be presented in the remainder of this course. Instructional techniques used here are monitoring the students' work and Q and A, then lecture and power point in going over the case study.

4th 15 minutes: The students will be exposed to another definition of IRR, which the vast majority of them will have never heard of. It is an extremely simple definition which can be explained to almost anyone. We will also cover the "FOUR DEADLIES." The four most commons mistakes made in calculator entry. These 4 problems will cover 95% of the calculator problems encountered. At the end of this section the students will have learned a new, much simpler definition of IRR, and will be cognizant of the four most common mistakes made on their calculators. Instructional techniques used are lecture, Q and A, and Power Point.

HOOR 4. 1ST 15 minutes: The main reason I wrote this course was to expose this subject: What effect a changing interest rate environment might have on market cap rates/values. We discuss how historically cap rates will follow interest rates, and the effects that might have on values

going forward We discuss the three ways by which properties appreciate. At the end of this section the students will have a much better understanding of the effect interest rates have on values, and the three ways properties appreciate. Instructional techniques used are lecture, Q and A, and Power Point.

2nd, 3rd, and 4th 15 minutes: The students will take the case study they did in hour three, but they will show the effect of buying at a 7% cap rate, but having to sell at a 9% cap rate, because of market conditions. The instructor will then go over the case study, and point out the obvious- any appreciation normally benefitted from with an increase in NOI, is erased by the fact that the selling cap rate was 9%. This is an EXTREMELY eye opening section. I have found that very rarely have brokers ever done a pre buy proforma for a prospective investor wherein they investigated the result of selling at a cap rate higher than the acquisition cap rate. Instructional techniques used here are monitoring and Q and A during the time the students are actually doing the case study. Then in the review: lecture, Q and A, and Power Point.

HOOR 5 1st 15 minutes: We go over some of the shortcomings of IRR- comparing the IRR's on properties that might have different down payments, or different holding periods. The students will learn that the property that has the higher IRR is not necessarily the better deal, if it is being compared with other properties that have either different down payments or holding periods. Instructional techniques will be lecture, Q and A, reference to the student manual.

2nd and 3rd 15 minutes: The concept of Net Present Value is discussed relative to how little it is used, and how it should be used more. The basic concept is discussed, an example is done, and a case study is done by the students in small groups. At the end of this section the students will understand the concept, the practical usage of it in the real world, and how to actually make the calculation. Instructional techniques used are lecture, Q and A, going over an example in the student manual, and Power Point in explaining the case study.

4th 15 minutes: We will start discussing the concept of Financial Management Rate of Return. An example is done that has a

projected negative cash flow in year two, and how IRR does not make any allowances for this. At the end of this section, the students will know the definition of FMRR, how many of the 16 contributing elements are considered in its calculation. Instructional techniques used are lecture, reference to student manual, and power point.

HOOR 6 1st and 2nd 15 minutes: An example of FMRR is conducted by the instructor on Power Point, and then the students will do a small group case study doing an FMRR problem. At the end of this section the students will be totally comfortable with the concept of FMRR, and will see the extreme benefit of using it with normal, every day investors. Instructional techniques used are lecture, Q and A, and Power Point.

3rd and 4th 15 minutes: A very eye opening comparison of IRR vs. FMRR is conducted in which the students will learn that even though property A might have the higher IRR, property B might actually be the one that makes the most money. A couple of macro observations regarding IRR are discussed- the higher the IRR becomes, the further removed from reality it becomes; and the earlier in the income stream unusually large cash flows occur, the more it affects the IRR. At the end of this section, the students will have a much better understanding of how and when IRR and FMRR should be used, and the shortcomings associated with each. Instructional techniques used are lecture, Q and A, student manual, and power point.

HOOR 7 1ST, 2ND , 3rd 15 minutes: A typical Walgreens deal is discussed relative to how good a deal it actually is. The students will do a small group case study calculating yield on a typical Walgreens deal, which had no rent escalators. The instructor will then go over the case study, showing that because the NOI at the end of 20 years is the same as it was on day one, and because of the facts of closing costs upon sale and massive recapture of cost recovery, in order for the owner to just get his money back, he will have to sell the property at a cap rate significantly lower than their acquisition cap rate- highly unlikely in the real world. Instructional techniques used are monitoring and Q and A during the case study, then lecture, Q and A, and power point in reviewing the case study.

4th 15 minutes: The concept of “return of vs. return on” is discussed. This is a concept, which is referred to often, however the knowledge to actually do the math is general not there. We will do an example and a small group case study. At the end the students will not only understand the concept, but actually be able to do the math. Instructional techniques are lecture, Q and A, student manual, and power point.

HOOR 8 1ST 15 minutes: We will discuss the problem confronted by many owners today: They bought their property at a low, market at the time, cap rate, obligated themselves to a 5-10 year balloon (which at the time they bought it was no problem because of how properties were appreciating); their NOI has been cut in half because of our recession; their balloon is coming due; and the amount of the new available loan is not enough to pay off the balance on their existing loan. WHAT IS IT WORTH?? How do you value it? A valuation process is discussed whereby a prospective buyer might develop a value for the property making some assumptions into the future such as: what is the NOI going to do, and what cap rate might the property sell at after a reasonable holding period. At the end of this section the students will probably recognize a situation many of their clients are actually in. They will learn an empirical/mathematical method by which value might be ascertained. Instructional techniques will be lecture, Q and A, student manual, and power point.

2nd and 3rd 15 minutes: Students will do a small group case study wherein they will make some assumptions as to what they think the property will do over the next 5 years, and try a set of parameters to evaluate a potential value, which would be acceptable to a potential buyer. At the end of this section the student will learn how to mathematically evaluate a problem property such as this, and will have actually done that analysis. Instructional techniques used are monitoring the students doing the case study and Q and A.

4th 15 minutes: Instructor will go over the case study the students just conducted. He will illustrate the methods used, with the goal being giving the students an empirical method by which they might

help a client who is in this situation. Instructional techniques are lecture, Q and A, and power point.