

# REAL ESTATE AND THE AACSB'S COMMON BODY OF KNOWLEDGE

*The merits of including real estate related courses in a university's business curriculum.*

by Neil G. Carn and Joseph S. Rabianski

**R**eal estate analysis is not included in the common body of knowledge as defined by the American Assembly of Collegiate Schools of Business (AACSB). Real estate principles, the most common industry course taught in colleges, is only an elective and not a requirement in the curriculum of most business schools. This article will explore issues that relate to real estate education and its role in a business program. For example, there are business programs that offer real estate courses but do not provide a real estate curriculum that is comparable to the requirements imposed for other business courses.

## Body Of Knowledge Requirements

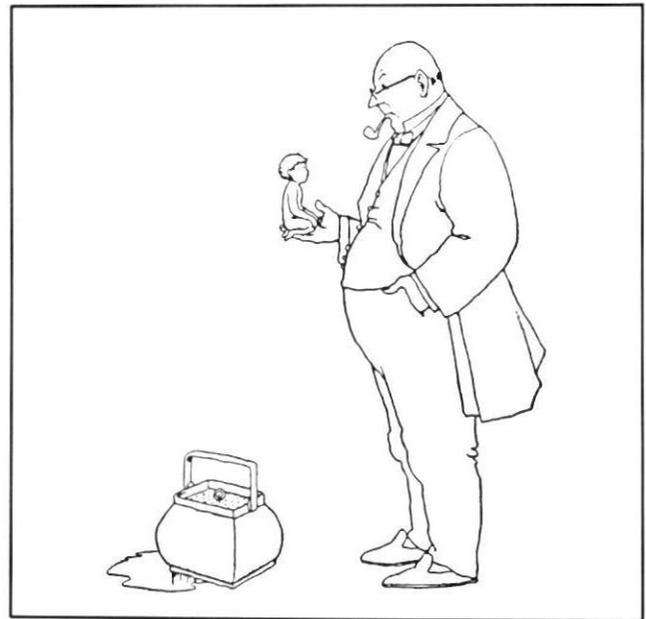
The AACSB's common body of knowledge requirements in business administration include at least one year of work encompassing the following areas:

- production and marketing of goods and services and financing of business enterprise;
- economic and legal environment with ethical considerations and sociopolitical influences;
- accounting, quantitative methods, and information systems, including computer applications;
- organization theory, behavior and interpersonal communication;
- managerial policy determination and administrative processes under uncertain conditions<sup>1</sup>.

Common body requirements need to be reflected in

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accredited business programs since all business students, regardless of their specialty, need to receive substantive training in each subject to acquire general principles. These courses are applicable to most business decision-making situations. AACSB has not adequately addressed the following two major categories of questions.

1. What are the accepted ways to satisfy common body of knowledge requirements in a business program? What types of courses should contain these subjects? When, or in what sequence, should the subjects be taught? Who (i.e., what business disciplines) should teach the courses? Could some or all of the subjects be included within a particular program or major such as real estate?
2. When and under what conditions should the common body of knowledge requirements be expanded, contracted, or otherwise modified? Are technological

sophistication and rapid changes in business environments encouraging specialized training in business degree programs? What is the impact on these requirements to changing educational needs in various fields?

There are specific questions about how common body of knowledge subjects should be applied to real estate education.

- What similar elements should be included in real estate coursework, and where in the curriculum should these subjects be placed?
- Are there real estate subjects which have general business application and should be included in a core business curriculum?
- What role should real estate educators play in teaching common body subjects to their own majors and to other business students?

### Well Rounded Curriculum

Most real estate faculties encourage AACSB requirements to insure their majors will be well founded in the general areas of business. However, business students usually are not exposed to any real estate topics except as electives. Presently, the number of electives for business students are diminishing since there are increased requirements in business core areas such as information systems and international business. Entire courses often are added even though the AACSB only requires concepts or topics which could be included in other courses. Also, many nonbusiness courses are available as electives and in competition with real estate classes in the junior and senior years. Consequently, it is very difficult for real estate education to become integrated into the business core or elective area.

Many business students and faculty from traditional fields regard an education in real estate to mean learning the techniques of buying and selling houses. In reality, real estate classes are concerned with the production, financial structuring, investment decision-making, distribution, and ongoing management of real property that requires intricate business decisions and utilization of skills and training.

Real estate subjects are applicable in business situations since the decisions about production, marketing, and financing are critical components. Space utilization and facilities planning are essential in any strategic business planning process, yet these topics are not explicit in core business courses. Companies must occupy real property to perform, and how they acquire, organize, and manage real property has extensive financial and operational impact. Thus, the whole process of real estate decision-making is involved in the operation of all enterprises. A business student should be aware of the salient issues involved in acquiring and occupying space as the decision-maker should know how to provide for changes in space requirements. These concepts can be taught in courses concerned with real estate principles.

### The Real Estate Principles Course

The real estate principles course is a microcosm of business and professional applications. Properly designed and taught, it provides the student with a view into the unique characteristics of real estate, the market and legal environment in which real property transactions occur, and the specialized knowledge and training needed to properly manage real estate assets. It is important to understand the principles governing utilization of real assets from the viewpoint of internal real estate management which includes facilities planning for physical expansion or contraction of the enterprise. It also has value from an investment management viewpoint where real estate is a productive component.

For many general business students, this course would be their only exposure to the principles of financing, managing, and analyzing real estate assets. For students who continue on to advanced real estate courses, the principles course provides the foundation for further studies in areas as real estate finance, investment analysis, appraisal, and market research.

Table 1 illustrates the major topics in a business-oriented real estate principles course which include

- business law topics in the real estate law section;
- legal environment concepts in the real estate development and regulation section;
- microeconomic analysis in the appraisal and market analysis section;
- accounting procedures and analysis of financial statements in the investment and finance sections;
- compound interest theory in the investment and finance sections;
- capital market concepts in the finance section; and
- management planning and development in the property management, production, and investment sections.

When the principles are so presented, they can be characterized as focusing on a commodity that is

- traded in a highly institutionalized but noncentralized market;
- evaluated as an investment opportunity;
- purchased through debt and equity financing;
- physically and financially managed in an organized fashion;
- regulated in its use and transaction procedures; and
- produced through a highly complex process.

Such an orientation uses concepts introduced in business core courses and applies them to a real property asset, or it introduces these concepts in the course and then puts them into application. The approach varies depending on whether the course is geared to a sophomore or junior level. For a junior level course, the principles of accounting, economics, and decision mathematics are prerequisites. Typically, the other common body

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**TABLE 1**

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**Content of the Real Estate Principles Course**

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**Real Estate Terminology****Real Estate Law**

- rights and forms of ownership
- private limits on ownership (liens, easements, and restrictive covenants)
- contract law
- description of legal instruments used in transactions (deeds)
- discussion of the transaction or exchange process

**Real Estate Development and Regulation**

- public sector limits and controls on the individual's rights of ownership (zoning ordinances, subdivision regulations, and construction codes)
- condemnation and eminent domain
- land development standards

**Real Estate Appraisal**

- value determinants—physical, locational, legal, economic, social
- market analysis concepts
- appraisal techniques—value estimation of a specific property

**Real Estate Investment Analysis**

- investor objectives
- income/expense statements
- rates of performance
- rate of return
- measurement techniques (ratio analysis, NPV, IRR)
- tax code impacts on the investment decision
- deal structuring and negotiation

**Real Estate Finance**

- measurement of default risk
- financing alternatives
- financing institutions in the mortgage market
- sources of funds

**Real Estate Brokerage, Marketing, and Property Management**

- law of agency
- listing agreement
- lease law (residential and commercial)
- lease provisions and their effect on the asset's cash flow

**Real Estate Production**

- site selection and subdivision
  - site and architectural planning
  - construction management
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courses—principles of management, marketing, legal environment—are corequisites. At the sophomore level, the real estate principles course has no business prerequisites and often is consumer orientated.

A principles course also covers brokerage, marketing, and property management. Even though many business concepts may be presented, these topics can turn a business orientated course into a consumer-orientated class, even at the junior level. Topics such as licensing

regulations, brokerage practices, and sales techniques, should be itemized, however, they will displace investment and financial analysis if given too much emphasis.

The real estate principles course contains many of the business core concepts contained in the AACSB's common body of knowledge requirements. Economic analysis, sources of financing, and income/expense statements are presented in other business core courses. Some concepts, i.e., development regulations and

TABLE 2

## Content of the Real Estate Core Courses

<u>Course Title</u>	<u>Major Topics</u>	<u>Tools of Analysis</u>	<u>Contributing Disciplines</u>
Real Estate Investment Analysis	Income/Expense Analysis, Risk and Return Analysis (Performance Ratios, NPV, IRR, FMRR), Tax	Income and expense statements Discounting techniques Computerized programs	Accounting/Finance Decision Mathematics Information Systems
Real Estate Finance	Sources of Funds, Mortgage Market Analysis (Primary and Secondary), Future Market Impacts, Lenders' Use of Risk/Return Analysis, The Mortgage	Discounting techniques Income and expense statements Micro and macroeconomics Contract and financial law	Decision Mathematics Accounting/Finance Economics Legal Studies
Real Estate Market Analysis	Analysis of Local Economic Activity (Circular Flow of Income Model, Export Base Theory, Input/Output Analysis), Residential and Commercial Market Analysis, Residential and Commercial Location Theory, Consumer Research Techniques, Forecasting Techniques	Microeconomics Descriptive and inferential statistics Market research Strategic business planning	Economics Decision Mathematics Marketing Management
Real Estate Appraisal	Value Concepts; Physical, Location, and Legal Value Determinants; Three Appraisal Techniques; Mass Appraisal Using Regression Analysis	Microeconomics Discounting techniques Regression analysis	Economics Decision Mathematics
Public Policy Aspects of Real Estate	Government Land Use Powers and Roles, Public Objectives and Planning Processes, Provision and Maintenance of Land Infrastructure and Site-Specific Services, Regulatory Approvals, Cost/Benefit Analyses, Impact Analyses, Public/Private Development Roles and Relationships, Legal Precedents, Trends	Cost analysis Economic impact analysis Evaluation of legal and political risks Environmental impact analyses Strategic project planning	Accounting Economics Decision Sciences Legal Studies Public Administration Management

management of activities, are more specialized and require focusing on real estate's peculiar legal environment and production techniques.

### Senior Courses In Real Estate

Table 2 identifies the five courses that comprise a full real estate curriculum offered beyond the principles course. Often the areas of investment and finance are combined into a single course. The major topics for each are shown in Column 2, the tools of analysis are identified in Column 3, and Column 4 identifies the business discipline where the tools are obtained.

The five courses analyzed in Table 2 utilize a variety of skills fundamental to a business curriculum. This is especially true of investment, finance, market analysis and appraisal courses whereas a course in development regulations applies a different analysis. This subject matter is real estate orientated but employs techniques peculiar to legal and governmental analysis and investigates court cases that establish the basis for developmental restrictions in zoning, subdivision regulations, building

codes, growth control techniques, and eminent domain. It also introduces the student to technical materials important in analyzing the physical development potential of a site. This course and others listed here contribute to the strategic planning process in business organizations which hold real estate assets.

Real estate core courses provide concepts to use in making important business decisions.

- Does the return from a real estate equity investment meet the investor's financial objectives? How is return measured? What risks must be faced? How is risk evaluated?
- Can the form of ownership affect the rate of return from a real estate equity investment?
- Can the financial structuring of the deal affect the rate of return?
- How is the mortgage market funded? How is the fund affected by economic circumstances?
- What factors affect the level of new residential construction? How is the construction market

related to the financial markets?

- How is the economic strength of a local economy and market analyzed and measured?
- How can a specific parcel of land and structure be valued? How does the value of real property change when economic circumstances change?

These five real estate core courses expand the topics introduced in the real estate principles course to give the student workable knowledge and provide specific skills in real estate management. The courses build on the common body of knowledge topics discussed earlier in the same way that senior level courses relate in other functional areas of business. Therefore, it is plausible for real estate majors to take these courses to meet some of the AACSB's requirements for finance, marketing, and legal studies.

### The Argument

The AACSB needs to give more direction to common body of knowledge concepts for business students in each of the business fields. The AACSB should respond to the following questions:

- It is important to know the legal environment of business, or should students only be instructed in their functional area—accounting, finance, insurance, or real estate? Is a combination of these approaches more desirable?
- Is knowledge of finance in a corporate sense the only way to fulfill the common body knowledge, or can financial principles be taught in a specialized way, i.e., can courses in real estate finance

and investment adequately fulfill basic requirements?

- Can marketing principles be taught in the context of real estate markets, or must the focus remain on personal property items that typically have no investment aspect added to their consumptive use?
- What aspects of microeconomics are needed by business students? Can these concepts be integrated into specialized courses such as real estate market analysis?
- Should factory-oriented production topics comprise the only approach to teaching production concepts, or could real estate construction constitute a possible alternative?

Real estate majors could be exempted from some basic classes because the training they receive in senior level courses fulfills common body requisites and provides specialized real estate training. For example, the development regulations course focuses on a legal environment specific to real estate; a course in mortgage markets, syndication, and real estate investments is a finance course specific to real assets; and the real estate market analysis course embraces general marketing principles and provides training in techniques peculiar to real estate. Students majoring in other business areas should have the same option when coursework in their field provides advanced training in general business foundations and techniques specific to the discipline.

In addition, it would be valuable for general business students to acquire specialized training in real estate analysis; or topics from a real estate principles course

TABLE 3

Specialized Real Estate Courses

Course	Major Topics
Legal Environment of Real Estate	Real estate law and legal precedents; Law of Agency, Real estate securities and syndication laws; Real estate contracts and lease law; Legal and political powers of government; Legal procedures of governmental real estate actions; Legal case studies involving regulatory issues.
Urban Land Theory and Location Analysis	Economic theories of urban space markets; Basic value and land economic theories; Central place, and urban agglomeration theories; Industrial/residential/commercial location theories and determinants; Land use theory and models; Development decision-making processes; Site selection and development strategy procedures.
Real Estate Production and Development	Property development processes and procedures; Site and architectural analysis, site planning procedures; Cost estimation and value engineering; Construction contract negotiation and management; Construction management and scheduling; Rehabilitation and redevelopment processes; Governmental assistance programs; Historical renovation.
Real Estate Organization and Management	Strategies for maximizing potential of real estate assets and business opportunities; Organization and management of real estate investment entities; Real estate asset and property management; Management of residential/commercial/industrial brokerage operations; Organization and management of real estate functions in large diversified firms; Strategic planning for real estate organizations and projects.

should be included in common body of knowledge requirements. The real estate principles course is the easiest, most available method to meet any such requirement.

### Optional Courses In Real Estate

Once a business student has completed a real estate principles course, he/she may benefit from advanced topics. Table 3 identifies courses which offer real estate

**TABLE 4**

Service Function of Major Real Estate Courses

<b>Functional Area of Business</b>	<b>Rank Ordered Service Courses</b>	<b>Relevant Information</b>
Accounting	Real Estate Investment/Finance	Nature of analysis for equity decisions; Measures of profitability: Profit recognition
	Real Estate Appraisal	Valuation techniques: Historic cost calculation, fair market value, net realizable value
	Real Estate Market Analysis	Revenue and operating cost—historic cost analysis and comparable data analysis; Revenue and expense forecasting techniques
Finance	Real Estate Investment/Finance	Nature of analysis for equity decisions; Institutional factors affecting market transactions; Performance and profitability measures; Ownership entity selection; Real estate taxation provisions
	Real Estate Market Analysis	Analysis of local economy; Revenue and expense forecasting techniques; Demand and supply in residential, commercial, and industrial markets
	Real Estate Appraisal	Real asset valuation techniques
Marketing	Real Estate Market Analysis	Application of market segmentation techniques; Evaluation factors for competition and market potential; Focus of consumer survey techniques
	Real Estate Brokerage	Marketing the physical asset: lease negotiations, tenant selection, space allocation
Economics	Real Estate Market Analysis	Demand and supply factors in residential and commercial markets; Residential and commercial location theory
	Real Estate Finance/Investment	Analysis of the primary and secondary mortgage markets; Discounted cash flow analysis (an application of cost/benefit analysis)
	Real Estate Appraisal	Valuation techniques; Physical, economic, and locational value determinants
Computer Science/ Information Systems	Real Estate Investment Analysis	Nature of decision-making analysis; Structure of commercial models to undertake analysis
Management	Real Property Management	Managing the physical asset
	Management of Real Estate Business Organizations	Strategic planning for the organization and the project(s); Managing real estate organizations <ul style="list-style-type: none"> <li>• Investment entities</li> <li>• Mortgage lending entities</li> <li>• Professional and business service entities</li> <li>• Production and entrepreneurial entities</li> <li>• Public, non-profit, and other quasi-public institutional entities</li> </ul>
Legal Studies	Development Regulation	Basis and procedures of regulation; Role of government and legal basis for guiding development and providing essential services
	Real Property Law	Use of technical agents in real estate activities; Types and nature of legal interests and investment entities; Instruments and contracts used in real estate transactions

majors and business students opportunities for diversification. These courses are usually available only in large real estate programs or at the graduate level. The presentation in Table 3 provides topics in these specialties; relationships to other business fields are not discussed, even though there are links to legal studies, economics, and management. This is not a comprehensive list of real estate specialization courses, but it identifies the principal classes that exist in some business schools and could be offered in others with the required faculty and resources.

Advanced courses expose the student to ideas for the analysis of business decisions involving real property.

- Can local government regulation affect the rate of return on a development project? How do you evaluate this impact?
- What physical limits can a site impose on the development process?
- Should excess acreage be purchased as a means for future expansion? If so, what is the value of this land in the future? What are the direct costs and the opportunity costs of holding excess acreage?
- When should the firm divest excess acreage of facilities?
- Should the corporation diversify into property development? What risks would it face?
- If an expansion of production facilities is warranted, should that expansion occur on-site, should the plant relocate, or should a branch plant be established? Where should that branch plant be located? Where should the firm relocate? What are the criteria and standards that need to be analyzed in making these decisions?
- Can design features of the site and structure affect

the rate of return by influencing revenues, operating and/or construction costs?

### **Real Estate Courses As Service Courses**

Real estate courses also can provide a body of electives for students majoring in other business disciplines. Table 4 identifies the service function that specific real estate courses can provide these students. The topics covered are identified in the column entitled Relevant Information. Real estate investment is the course that interests most business students, followed by real estate finance and real estate market analysis.

### **Summary And Conclusion**

This article has explored the role of real estate education in meeting common body of knowledge or core requirements in the business curriculum. As a business field, real estate's educational programs usually embrace general business core requirements. However, these students often graduate with little if any exposure to important topics, and real estate educators are rarely involved in teaching core subjects.

Such topics have a place in the business core, i.e., the basic concepts of space utilization and facilities planning, since these subjects are frequently encountered in business decision-making and are critical concerns in strategic planning. Placing a real estate principles course in the general business core is the most appropriate and readily available method of integrating real estate topics into core business requirements.

### **NOTE**

1. American Assembly of Collegiate Schools of Business, *Accreditation Council Policies, Procedures and Standards: 1985-86*. AACSB, 1985, p.29.