

University of Washington Foster School of Business
FIN 579 A/B: Intro to Real Estate Finance and Investment
Autumn 2020
Professor Tracey Seslen

Course Contact Information

Professor: Tracey Seslen

Office: PCAR 564

Office Hours: Tuesdays 12:30-1:30pm (“walk-in” on Zoom) and by appointment.

Email: seslen@uw.edu

Phone: 310-874-8777 (cell) No calls before 9am or after 9pm, please.

Class Time: M 6:00-9:20pm

Class Website: <http://canvas.uw.edu>

Grader: David Shin (Ph.D. Student in Finance) dhshin11@uw.edu

Description

The goal of this course is to equip students with a toolbox of fundamental concepts and analytical techniques for the purpose of making prudent real estate investment decisions. The course will be built upon the modern corporate finance curriculum; however, a key objective of the course is to impart understanding of the factors that distinguish real estate from conventional securities investments and the implications of those differences. By the end of the quarter, students will learn various real estate valuation techniques and the circumstances under which they are best used; how to tailor a property’s lease structure to best fit the property and specific tenant type; how to choose the best loan for a property; how to set up an equity partnership, and how to identify and better control risk in a property investment. Learning will take place via video and synchronous lectures, problem sets, case discussions, in-class exercises, class visits from industry experts, and a group project in which students carry out a detailed financial analysis of an actual for-sale property in the Puget Sound area.

Prerequisites

MBA Core Finance or equivalent. Individuals should have a solid understanding of cash flow discounting and present value mathematics. In this course, the students will develop an understanding of such techniques as applied to real estate issues. For those of you needing a PV math or discounting refresher, please work through the “PV Math Pre-Test” document posted in the “Miscellaneous” section of the class Canvas page. Step-by-step solutions are available in video format under the Panopto link.

Required Course Materials

- Harvard Case Library Coursepack <https://hbsp.harvard.edu/import/762816> (Registration required). \$8.50 for required materials, plus \$4.25 for optional materials.
- Excel/Google Sheets. Financial calculators or graphing calculators with financial functions may be used for doing quick calculations in class, but there is an expectation that students become proficient in using the financial functions of Excel, as it is used heavily in industry and will be needed for the exam.

Recommended Textbook

- Brueggeman and Fisher: Real Estate Finance and Investments. The 14th, 15th, and 16th editions, domestic and international, are all about the same when it comes to content covered in the class, so I recommend getting the one that is the cheapest and easiest to acquire. The main purpose of the book will be as a means of filling in any gaps from the lectures, slides, or personal notes. Reading of the book chapters should *not* be used as a first approach in studying for exams.

Grading Policy

Each student's grade is made up of the following categories:

• “Introduce Yourself”	1%
• PSets, Excel work-throughs, Speaker writeups	16%
• Huntington Flats Case (4 parts)	8%
• Pinckney Street and Wildcat Equity Partners Cases	20%
• Exam	20%
• Final Project “Warm-Up” (group)	2%
• Final Project	
○ Timely submission of proposal	2%
○ Final Report	23%
• Peer Evaluation	
(1% for submission + 2% for assessment)	3%
• Class Participation	5%
	5%
	100%

Disputes regarding grades must be brought to my attention within one week of grades being posted for the assignment in question. Course grades will follow the Foster School's standard policy for 500-level elective median targets.

Problem Sets

Problem sets will be graded on a full-credit/no-credit basis and are to be turned into Canvas in Excel, Word, or Jpeg format. To receive full credit for a problem set, you should have made a reasonable attempt to solve *every problem* assigned. Each student must turn in their own paper, although students may work together to solve the problems. Students may turn in problem sets up to 48 hours late for 50% credit. Beyond 48 hours, no credit will be awarded. Solutions to problem sets will be posted on Canvas around 72 hours after the problem set is due and links to video explanations may be posted for particularly challenging problems. Computational questions on the exam will be similar to the types of problems found in the problem sets, with extra consideration for time constraints. ***So please note: It is better to turn in a complete problem set late, than an incomplete one on-time, both from a grading as well as a knowledge acquisition perspective.***

Excel Work-Throughs

Given the importance of building cash flow/valuation models in Excel, and the inherent difficulty of teaching Excel work in a synchronous fashion, you will have two assignments in which you are asked to watch a set of videos and copy the Excel sheet(s) that I create in those videos. These assignment will each be worth two (2) percent of your grade and the same penalties will apply for late submissions as for problem sets. See the assignments section of Canvas for video links and other instructions.

Guest Speakers

To add an additional element of real world color to the class, we will be hearing from two guest lecturers. While Zoom attendance will not be taken, you will be required to turn in a *very brief* writing assignment at the end of the lecture designed to indicate active listening. Generally speaking, everyone who attends/watches the lecture and submits the required writeup will receive full credit, which counts for two (2) percent of your total course grade (4% total for the two lectures). If you expect to be absent/unavailable to watch synchronously, you must let me know in advance to be eligible for “make-up” credit.

Huntington Flats In-Class Case

Throughout the quarter, you will have the opportunity to solidify your understanding of basic valuation and pro-forma-building within a real-world context through a case called “Huntington Flats”. All parts of the case will be done in-class, and you will be free to consult with me or with your fellow students to complete the exercises. There is an expectation that all students will attend Zoom class on those days, and remain in class, working productively, until time is called OR you have successfully (correctly) completed the exercise. Students will submit their work to Canvas (either an Excel file or a jpeg of handwritten work) when it is complete or time is called. If you expect to be absent on a “Huntington Flats” day, you may do the work at home and can

receive full credit, but you **MUST** notify me in advance, and the work **MUST** be submitted within 24 hours of the class in which it was assigned.

Other Cases

In addition to the Huntington Flats case, students will be assigned two “traditional” Harvard-style cases. The Pinckney Street and Wildcat Equity Partners cases must be done in teams of 4 or 5, depending on course enrollment. Each team should turn in one hard copy and one electronic copy of the case deliverables at the time they are due. Case assignment questions and deliverable guidelines are posted on Canvas under each assignment link. No late cases will be accepted.

The cases will be graded out of 100 points. Grades will be based on accuracy of calculations, depth of analysis, insightfulness, conciseness, and conforming to a “professional” level of report formatting – pages should be numbered, graphs and tables properly labeled, and the text free of typographical and grammatical errors. If an early mistake in a calculation propagates others down the line, teams will only be penalized for the first mistake in the sequence.

The Pinckney Street and Wildcat cases may be purchased and downloaded from the Harvard Business Case Library, at <https://hbsp.harvard.edu/import/762816> (Registration required)

Exam

There will be one (1) exam during the quarter. It will be take-home/open book, but collaboration between students will be strictly prohibited. The exam will be done entirely in Excel/Word and you will have several days to complete it, although if you’ve studied well before starting, it shouldn’t take more than ~3 hours to complete. I will give detailed information later in the quarter on exactly what types of questions to expect.

Study Strategies: Please review the slides, the notes you’ve taken on them, in-class math examples, homework problems/solutions, sample exams, and non-slide class handouts. Once again, the main purpose of the book is as a means of filling in any gaps in knowledge regarding material discussed in class. Reading of the book chapters should *not* be used as a first approach in studying, and anything found in the book that I haven’t discussed in class *will not* be covered on the exam.

Final Project “Warm Up” (Discussion Board)

In preparation for the final project (explained below), your case/project groups will be asked to spend some time practicing analyzing the investment viability of a for-sale property before diving into the actual final project. See the assignment section of Canvas for details. Standard penalties will apply for late submissions.

Final Project

The culminating learning experience of this class will be a project requiring you to seek out an actual real estate investment opportunity in the Puget Sound area, evaluate that opportunity, and present your findings in a 12-15-page report (excluding graphics). Students should plan to work in their Pinckney/Wildcat case teams on this assignment. Further details on acceptable property types, sizes, deliverables, etc. will be discussed later in the quarter.

Peer Evaluation

Given the emphasis on group work in this class, you will be asked to assess your own and your group members' contributions to the major group deliverables – the Pinckney Street and Wildcat cases, and to the final project. It is not expected that all group members in all situations will contribute exactly equally, but there is an expectation that over the course of the quarter, everyone roughly pulls their weight and avoids productivity-killing drama. Situations in which there is a consistent pattern of reporting of slacking off, weak contributions, not being a team player or unprofessional behavior (missing meetings, being hard to get a hold of, disrespect of any kind) may result in a deduction of points from the performance component of the peer evaluation grade depending on the severity and consistency of the complaints. Students will receive 1 point for submitting the evaluation and 2 points for an overall positive assessment of their contributions throughout the quarter. (Note: the vast majority of students every quarter get full credit for performance)

Classroom Participation/Etiquette

Lectures will take place twice a week and attendance is *strongly recommended*. You should arrive on time and not leave until class has been dismissed. You should also return at the designated time from any breaks. Participation will be based on a combination of a self-assessment and my observations of student preparedness and engagement. Please see the Self-Assessment document on Canvas for an explanation on how participation is assessed and what the options are for obtaining your desired score.

Religious Accommodation

Washington state law requires that UW develop a policy for accommodation of student absences or significant hardship due to reasons of faith or conscience, or for organized religious activities. The UW's policy, including more information about how to request an accommodation, is available at Faculty Syllabus Guidelines and Resources. Accommodations must be requested within the first two weeks of this course using the Religious Accommodations Request form available at <https://registrar.washington.edu/students/religious-accommodations-request/>.

Academic Integrity

By being a student in this class, you acknowledge that you are a member of a learning community in the Foster School of Business that is committed to the highest academic standards. As a member of this community, you agree to uphold the fundamental tenets of the MBA Honor Code and actively encourage others to do so. Where a violation has occurred, the student will receive a zero on the assignment/exam and may be subject to further disciplinary action.

Course Outline, Readings, and Assignments Due:

Class #	Date	Topic	Chapter	Due
1	10/5	Introduction to the course; Valuation Conventions and Techniques Part 1; Intro to Huntington Flats	3, 10	HF Part 1
2	10/12	Valuation Conventions and Techniques Part 2; Real estate pro-forma analysis		
3	10/19	Huntington Flats Part 2; Introduction to Fixed Rate Mortgages	4	Problem Set #1 (Chapter 3, Chapter 10); HF Part 2
4	10/26	Adjustable Rate Mortgages; Introduction to Leasing	5, 9	Problem Set #2 (Chapter 4); Final Project "Warm-Up"
5	11/2	Introduction to the Final Project; Assessing Risk in Real Estate; Financing Alternatives (Debt vs. Equity)	12, 13	Problem set #3 (Chapter 5)
6	11/9	Huntington Flats Part 3; Advanced Debt Structuring		Proforma walk-through submission; Problem set #4 (Chapter 9 and 13); Final Project Proposal; HF Part 3
7	11/16	Guest Speaker #1 TBD ; Equity Partnerships	18	
8	11/23	Exam (due 11:59pm)		
9	11/30	Guest Speaker #2: TBD ; Pinckney Street Case Discussion		Equity Excel Waterfall; Case writeup #1
10	12/7	Wildcat Equity Partners case discussion; Huntington Flats Part 4; Course wrap-up and evaluations		HF Part 4; Case writeup #2; Participation Self-Assessment
	12/16	(Wednesday) Final Project Due (Electronic Copy via Canvas) at 11:59pm.		
		Peer Review due 11:59pm		