



# **Rotman** Commerce UNIVERSITY OF TORONTO

## **Course Outline**

### **RSM 380H1S**

Real Estate Finance and Investment

Spring 2014

Course Meets: Monday, 10am-noon, Room WW 126

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Professor: Lu Han  
E-Mail: [lu.han@rotman.utoronto.ca](mailto:lu.han@rotman.utoronto.ca)  
Phone: 416-946-5294  
Fax: 416-978-7030  
Office Hours: Monday, noon-1pm, and by appointment.\*  
Office: Rotman 8076  
Teaching Assistant: Limin Fang  
Email: [limin.fang@mail.utoronto.ca](mailto:limin.fang@mail.utoronto.ca)

\*It is very important that we be able to meet outside of class. If the timing of my office hours does not work, just ask. I am sure we can work out another time. Please see me at class or email to set up a meeting time.

## **Course Scope and Mission**

Real estate assets account for about one-third of the value of all capital assets in the world. An understanding of real estate investment is, therefore, important no matter what line of business a student plans to be in. This course provides students with a comprehensive understanding of real estate valuation, house price dynamics, real estate liabilities, corporate real estate, decision-making and public policies associated with real estate investment, using modern finance and economics tools. Topics include lease, commercial and residential real estate investment, house price movements, bubbles, mortgage financing and pricing, and international real estate. If time allows, we will end the course with a brief discussion on real estate securitization. Academic lectures are supplemented by a series of case discussions. Reading the course material and preparing for class discussion are both demanding and extremely important, permitting the maximal benefit from your investment in understanding the real estate investment decisions.

## **Required Readings**

The main textbook is "Real Estate Finance and Investments: Risks and Opportunities" (third edition) by Peter Linneman. This book provides background material and context for many of the concepts covered in class. You may want to share copies to reduce the cost. A small course packet is available in bookstore.

Optional readings are marked by \* in the course outline. These readings are supplementary; they provide supporting details on either the lectures or the required readings in the textbook. If you wish to develop specialized expertise in a particular area then the optional readings are a good starting point. The optional readings are not necessary to do well on the tests. Many of the optional readings are posted on the course website.

### Course Prerequisites

ECO204Y/206Y, ECO220Y/227Y /(STA220H1,STA255H1)/(STA257H1,STA261H1), RSM 332H1.

### Co-requisite

RSM333H1.

*If you drop RSM333H1 during the academic term, you must also drop this course. Contact Rotman Commerce Academic Program Services for academic advising if needed.*

### Evaluation and Grades

Your final grade will be determined by the weighted sum of your scores on the following:

<u>Work</u>		<u>Due Date</u>
Class Participation	10%	Ongoing
Case 1	5%	February 3
Debate	5%	March 3
Case 2	5%	March 24
Term Project	25%	March 31
Final Exam	50%	Scheduled by Arts & Science

The case write-up, debate, and the term project are group projects. You are allowed to choose your own groups, with each group having 5-6 members. It is solely your responsibility to form the group and coordinate with other group members. You must work with the same group on all group projects. Please email me your group list as soon as you have it with RSM380: REAL ESTATE GROUP (capital letters) in the subject. You must email me the list before the third class.

*Class participation:* Your contribution to class discussions is very important to the rest of the class. Please don't be shy –Ask questions to clarify what we are discussing or to bring a different perspective in class. The course is cumulative, so being lost gets quite costly very quickly. Constructive comments in class will increase the participation points. Naturally, consistently bad or irrelevant participation will decrease the participation points. Please display your name card in every class. Absence or late arrivals will be considered as a negative factor in class participation.

*Cases:* There are two cases in this class. The case assignments are described in separate handouts. The case write-ups are due at the beginning of the class.

*Debate:* There will be a debate on March 3. Groups will be randomly assigned positions in the debate (affirmative, negative, judge). I will describe the debate in more detail in a separate handout.

*Term Project:* The term project for this class involves the analysis of a real estate investment of your choosing. The detailed requirement is posted in a separate handout. Each group must turn in a brief proposal (1 page) of the research question and what you hope to accomplish before February 24. Topics will be allocated on a first-come, first-served basis. A final written report of the project is due at the beginning of the class on March 31. The report may not exceed 15 pages (12 pt. font, double spaced, 8x11 paper, 1 inch margins) plus references and any quantitative or graphical exhibits. Each group should also prepare a PowerPoint presentation of the highlights of the project in class on March 31.

*Final:* The final will be on a date scheduled by the program office.

Classes will never be recorded. I am very happy to help a student make up a missed class by providing additional readings and by discussing material in my office.

## **COURSE EXPECTATIONS**

### **To Use Turnitin.com:**

Students will be required to submit their course essays to Turnitin.com for a review of textual similarity and detection of possible plagiarism. In doing so, students will allow their essays to be included as source documents in the Turnitin.com reference database, where they will be used solely for the purpose of detecting plagiarism. The terms that apply to the university's use of the Turnitin.com service are described on the Turnitin.com website.

### **For Written Assignments:**

Please note that clear, concise, and correct writing will be considered in the evaluation of all written assignments. That is, you may lose points for writing that impedes communication: poor organization, weak paragraph development, excessive wordiness, hard-to-follow sentence structure, spelling mistakes and grammatical errors. Students who require additional support and/or tutoring with respect to their writing skills are encouraged to visit the Academic Success Centre ([www.asc.utoronto.ca](http://www.asc.utoronto.ca)) or one of the College Writing Centres ([www.writing.utoronto.ca/writing-centres](http://www.writing.utoronto.ca/writing-centres)). These centres are teaching facilities – not editing services, where trained staff can assist students in developing their academic writing skills. There is no charge for the instruction and support.

### **For Teamwork:**

When working as a team, students are reminded of the following expectations with respect to their behaviour and contributions to the assignment/project:

1. Read the document entitled, "*Working in Teams: Guidelines for Rotman Commerce Students*" which is available on the RC portal under the Academic Services tab.
2. When working in a team, Rotman Commerce students are expected to:
  - Treat other members with courtesy and respect;
  - Honour the ground rules established by the team;
  - Contribute substantially and proportionally to the final project;
  - Ensure enough familiarity with the entire contents of the group project/assignment so as to be able to sign off on it as original work;
  - Meet the project timeline as established by the team.

### 3. Resolving differences:

Conflicts can – and do – occur. Conflicts are part of the team’s process of learning how to work together effectively and can actually generate exciting debate and creative solutions – if managed appropriately.

Student teams are collectively expected to resolve disputes or misunderstandings as soon as they arise (and prior to submission of the final project). In cases where teams are unable to reach a mutually agreeable solution, the entire team must meet with the Rotman Commerce Team Coach\*\* as soon as possible. The Coach will listen to the team and help develop options for improving the team process. All members of the project team must commit to, and, utilize their action plans.

\*\* The Rotman Commerce Team Coach, Nikoleta Vlamis, may be reached at [nikoleta@nikoletaandassociates.com](mailto:nikoleta@nikoletaandassociates.com) for an appointment. Nikoleta is an expert in team dynamics and facilitation. Note that Nikoleta’s role is to provide guidance, support and advice on team matters – not to formally evaluate or assess teamwork for academic purposes

## **POLICY AND PROCEDURE**

### **Missed Assignments/Midterms**

Students may miss an assignment or midterm test due to illness, domestic affliction, or in the case of part time students, work commitments, without academic penalty providing the appropriate documentation is received and approved in a timely manner.

In such cases, students must notify Rotman Commerce on the date of the missed test (or due date in the case of course work) and submit supporting documentation (e.g. [Verification of Student Illness or Injury form](#)) to the Rotman Commerce Program Office within **48 hours** of the originally scheduled test or due date. Students who do not provide Rotman Commerce or the instructor with appropriate or sufficient supporting documentation will be given a grade of 0 (zero).

Note that the physician’s report must establish that the patient was examined and diagnosed at the time of illness, not after the fact. Rotman Commerce will not accept a statement that merely confirms a report of illness made by the student and documented by the physician.

### **Course Work, Accessibility Needs & Academic Honesty**

**Submission of Assignments** - Late submissions of any assignment may be considered; however, a resolution may be determined at the instructor’s discretion and may include an academic penalty.

**Accessibility Needs** - The University of Toronto is committed to accessibility. If you require accommodations for a disability, or have any accessibility concerns about the course, the classroom or course materials, please contact Accessibility Services as soon as possible: [disability.services@utoronto.ca](mailto:disability.services@utoronto.ca) or <http://www.accessibility.utoronto.ca/>.

### **Academic Integrity**

Academic Integrity is a fundamental value essential to the pursuit of learning and scholarships at the University of Toronto. Participating honestly, respectfully, responsibly, and fairly in this academic community ensures that the UofT degree that you earn will continue to be valued and respected as a true signifier of a student’s individual work and academic achievement. As a result, the University treats cases of academic misconduct very seriously.

*The University of Toronto’s Code of Behaviour on Academic Matters*

<http://www.governingcouncil.utoronto.ca/policies/behaveac.htm> outlines the behaviours that constitute academic misconduct, the process for addressing academic offences, and the penalties that may be imposed. You are expected to be familiar with the contents of this document. Potential offences include, but are not limited to:

In papers and assignments:

- Using someone else's ideas or words without appropriate acknowledgement.
- Submitting your own work in more than one course without the permission of the instructor.
- Making up sources or facts.
- Obtaining or providing unauthorized assistance on any assignment (this includes collaborating with others on assignments that are supposed to be completed individually).

On test and exams:

- Using or possessing any unauthorized aid, including a cell phone.
- Looking at someone else's answers
- Misrepresenting your identity.
- Submitting an altered test for re-grading.

Misrepresentation:

- Falsifying institutional documents or grades.
- Falsifying or altering any documentation required by the University, including (but not limited to), medical notes.

All suspected cases of academic dishonesty will be investigated by the following procedures outlined in the *Code of Behaviour on Academic Matters*. If you have any question about what is or is not permitted in the course, please do not hesitate to contact the course instructor. If you have any questions about appropriate research and citation methods, you are expected to seek out additional information from the instructor or other UofT resources such as College Writing Centres or the Academic Success Centre.

### **Email**

At times, the course instructor may decide to communicate important course information by email. As such, all UofT students are required to have a valid UTmail+ email address. You are responsible for ensuring that your UTmail+ email address is set up AND properly entered on the ROSI system. For more information please visit <http://help.ic.utoronto.ca/category/3/utmail.html>

Forwarding your utoronto.ca email to a Hotmail, Gmail, Yahoo or other type of email account is not advisable. In some cases, messages from utoronto.ca addresses sent to Hotmail, Gmail or Yahoo accounts are filtered as junk mail, which means that important messages from your course instructor may end up in your spam or junk mail folder.

### **Blackboard and the Course Page**

The online course page for this course is accessed through Blackboard. To access the course page, go to the UofT Portal login at <https://portal.utoronto.ca/> and log in using your UTORid and password. Once you have logged in, look for the My Courses module where you'll find the link to all your course websites. If you don't see the course listed here but you are properly registered for the course in ROSI, wait 48 hours. If the course does not appear, go to the Information Commons Help Desk in Robarts Library, 1st floor, for help, or explore the Portal Information and Help at [www.portalinfo.utoronto.ca/students](http://www.portalinfo.utoronto.ca/students) and review the Frequently Asked Questions.

### **Recording Lectures**

Lectures and course materials prepared by the instructor are considered by the University to be an instructor's intellectual property covered by the Canadian Copyright Act. Students wishing to

record a lecture or other course material in any way are required to ask the instructor's explicit permission, and may not do so unless permission is granted (note: students who have been previously granted permission to record lectures as an accommodation for a disability are, of course, excepted). This includes tape recording, filming, photographing PowerPoint slides, Blackboard materials, etc.

If permission is granted by the instructor (or via Accessibility Services), it is intended for the individual student's own study purposes and does not include permission to "publish" them in anyway. It is absolutely forbidden for a student to publish an instructor's notes to a website or sell them in any other form without formal permission.

## **Course Outline**

### **Part I: Course Overview and Corporate Real Estate**

#### **Lecture 1: Course Overview (January 6)**

Readings: Lecture Note

Linneman, Chapter 1: "Introduction: Risks and Opportunities"

Linneman, Chapter 2: "What is Real Estate?"

#### **Lecture 2: Commercial Lease (January 13)**

Readings: Lecture Note

Linneman, Chapter 3: "Commercial Lease"

Wheaton, "Percentage Rent in Retail Leases: the Alignment of Landlord Tenant Interests," Real Estate Economics, 28:2 (2000), 185-204.

### **Part II: Commercial Real Estate Investment**

#### **Lecture 3: Commercial Real Estate Markets and Valuation (January 20)**

Readings: Lecture Note

\*Geltner and Miller, Chapter 1: "Real Estate Space and Asset Markets"

Linneman, Chapter 4: "Property Level Pro Forma Analysis"

#### **Lecture 4: Commercial Real Estate Pro Forma Analysis (January 27)**

Readings: Lecture Note

Linneman, Chapter 5: "Financial Modeling"

\*Linneman, Chapter 6: "Real Estate Due Diligence Analysis"

Linneman, Chapter 7: "The Use and Selection of Cap Rates"

\*Vernon Martin III "Nine Abuses in Pro Forma Cash Flow Projections"

#### **Lecture 5: Case 1: Toronto Condominium Investment (February 3)**

## **Part III: Residential Real Estate Markets and Housing Policies**

### **Lecture 6: What Drives House Prices? (February 10)**

Readings: Lecture note

Linneman, Chapter 20: "Real Estate Cycles"

\*Haugwout, Peach, Sporn, and Tracy, "The Supply Side of the Housing Boom and Bust of the 2000s", *NBER working paper*, 2011

\*Mankiw and Weil, "The Baby Boom, the Baby Bust, and the Housing Market," *Regional Science and Urban Economics* 1984 (May): 235-258

### **Lecture 7: Real Estate Bubbles and House Price Risk (February 24)**

Readings: Lecture Note

\*Han, "The Effects of House Price Uncertainty on the Life-Cycle Housing Demand," *Review of Financial Studies*, 2010, 23, 3889-3928

\*Case and Shiller, "Is There a Bubble in the Housing Market?" *Brookings Papers on Economic Activity* (2003)

### **Lecture 8: Public Policy of Real Estate and Student Debate (March 3)**

Readings: Lecture Note

\*Glaeser and Shapiro, "The Benefits of the Home Mortgage Interest Deduction," *Tax Policy and the Economy*, MIT Press, 2003.

## **Part IV: Leverage and Mortgage**

### **Lecture 9: Optimal Leverage (March 10)**

Readings: Lecture Note

Linneman, Chapter 12, "Should You Borrow?"

Linneman, Chapter 13, "The Use of Debt and Mortgages"

### **Lecture 10: Mortgage Pricing and Default Risk (March 17)**

Readings: Lecture Note

Linneman, Prerequisite III: "Amortization Fundamentals"

Brueggeman/Fisher, Chapter 4, "Fixed Rate Mortgage Loans"

\*Dean Foust, "The Mortgage Trap," *Business Week*, June 27, 2008

## **Part V: Advanced Topics**

### **Lecture 11: International Real Estate (March 24)**

#### **Case 2: China and India Real Estate Deals**

Readings: \*Linneman, Chapter 2, Supplement A: "International Real Estate Investing"

### **Lecture 12: Student Presentation (March 31)**