



# Rotman Commerce UNIVERSITY OF TORONTO

## Course Outline

### RSM484H1S | L5101

Real Estate Finance and Investment  
Winter 2017

Class Meets: Monday evenings from 6:00 – 8:00 p.m.  
Room 35, Woodsworth College Residence, 125 St. George Street

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Instructor: Joseph Shaw  
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Fax: 416-926-5509  
Office Hours: By appointment only  
Monday evenings from 8:00 – 9:00 p.m.  
Teaching Assistant: Alon Grinberg, [alon\\_grinberg@hotmail.com](mailto:alon_grinberg@hotmail.com)

### Course Scope

The objective of the course is to provide students with practical commercial property valuation skills and the ability to conduct financial feasibility analysis. This quantitatively heavy course will expose students to the three major valuation approaches (sales comparison approach, cost approach, and income capitalization approach), cash flow pro-forma and the financial component of lending. It will develop a student's ability to conduct direct research on the financial factors that drive income-producing real estate's profitability. This course will involve interaction with industry practitioners via the individual assignment.

### Course Mission

To help students to understand the economics of, and financial metrics used in the analysis of real estate investments and capital markets; to introduce students to the principal concepts and theories in real estate investment and finance-based investment analysis; and to understand the drivers of a commercial property's net operating income and value.

### Course Prerequisites

**Prerequisite:** ECO204Y1/ECO206Y1,

ECO220Y1/ECO227Y1/(STA220H1,STA255H1)/(STA257H1,STA261H1), RSM332H1

**Corequisite:** RSM333H1 If you drop course RSM333 (the co-requisite) during the academic term, you must also drop this course. Contact Rotman Commerce Academic Program Services for academic advising if needed.

**Exclusion:** RSM380H1

## Required Readings

The textbook for the course will be Peter Linneman's "Real Estate Finance and Investments: Risks and Opportunities" Edition 3.1. Linneman Associates, Philadelphia, PA, 2013. This book is available at the Campus Bookstore. **A financial calculator (with time value of money functionality) is required at every class.**

Students are expected to have completed the readings before class and be ready to discuss and debate them during lectures. See the schedule below for mandatory readings.

Additional supplemental readings posted in the course shell include:

- Brooks, Michael J. 2006. Canadian Real Property -Theory and Commercial Practice
- Deloitte REIT Guide. Deloitte and Touche

## Evaluation and Grades

Grades are a measure of the performance of a student in individual courses. Each student shall be judged on the basis of how well he or she has command of the course materials.

COMPONENT	WEIGHT	DUE
Class Participation	10%	Ongoing
Midterm Exam	30%	Feb 20 <sup>th</sup>
Individual Assignment: Case Study	10% Presentation	Mar 27 <sup>th</sup> & Apr 3 <sup>d</sup>
	20% Written	April 10 <sup>th</sup>
Final Exam	30%	April 10 <sup>th</sup> – 28 <sup>th</sup>

## COURSE FORMAT AND EXPECTATIONS

### Methods of Evaluation

The course has 5 components: Class Participation, Mid-Term, Case Study and Presentation, and Final.

- (a) Class Participation. Class participation is worth 10% towards the final course grade.
- (b) Mid-Term Exam. The exam is worth 30% towards the final grade. The exam will be primarily multiple choice from the readings and class discussion.
- (c) Individual Case Study. The case study is worth 20% towards the final course grade. The term essay is a mini-research exercise applying academically learned concepts to the real world. The objective of this exercise is to select and analyze an income-producing commercial property using a professional approach.
- (d) Presentation. Learnings from the case study will be shared in a short presentation to classmates. This presentation represents 10% of the final grade.
- (e) Final Exam. The final is worth 30% towards the final grade. The exam will be primarily multiple choice and survey material from the readings and class discussion.

Students are responsible for the content of any lectures that they have missed. The material will not be re-taught.

**The case study and presentation slides are to be submitted to Mr. Shaw and Mr. Grinberg by email no later than April 10<sup>th</sup>.**

Please note that clear, concise, and correct writing will be one merit in the evaluation of the Individual Case Study. 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.

### **Weekly Schedule**

Session	Date	Topic	Pre-Readings
1	Monday, Jan 9th	Course overview, expectations, class conduct, overview of real estate property and capital markets	Chapters 1 and 2
2	Monday, Jan 16 <sup>th</sup>	Basic time value of money Leases: gross vs. net, reimbursements, rights, options, NER Office Lease	Pre-requisite I  Chapter 3
3	Monday, Jan 23 <sup>rd</sup>	Net Operating Income and Cash Flow	Chapter 4 – Sup. A
4	Monday, Jan 30 <sup>th</sup>	3 approaches to value, cap rates, DCF, IRR, NPV, Discount Rate, modeling	Pre-requisite II Chapters 5 and 6
5	Monday, Feb 6 <sup>th</sup>	Applying IRR, NPV and DCF to CRE; understanding and pricing risk; selection between competing opportunities Exiting investments	Supplemental I Chapter 7 – Sup. A, B and C, and Chapter 16
6	Monday, Feb 13 <sup>th</sup>	Mid-term 2 Hours +, Closed Book	
	Monday, Feb 20 <sup>th</sup>	NO CLASS – Reading Week	
7	Monday, Feb 27 <sup>nd</sup>	1. Review Midterm 2. Basic Real Estate Finance – the underwriting process	Chapter 12 Pre-requisite III
8	Monday, Mar 6 <sup>th</sup>	Debt, underwriting metrics and approaches CMBS	Chapters 13 and 14 – Sup A & B Supplemental II
9	Monday, Mar 13 <sup>th</sup>	Real Estate Capital Markets Securitization of real estate equity and debt; corporate debt; capital market valuation and public/private market arbitrage	Chapters 10, 17 – Sup. A & B and 18 – Sup. A & B
10	Monday, Mar 20 <sup>th</sup>	Corporate Real Estate Lease vs. buy analysis; outsourcing, property management Ethics	Chapters 19 and 21
11	Monday, Mar 27 <sup>th</sup>	Real Estate Cycles Case Presentations 1	Chapter 20 – Sup. C
12	Monday, Apr 3 <sup>rd</sup>	Submission of Case Case Presentations 2	
	April 10 <sup>th</sup> – 28 <sup>th</sup>	Final Exam 2 Hours + Closed Book	

## **POLICY AND PROCEDURE**

### **Missed Tests and Assignments (including midterm examinations)**

Students who miss a test or assignment for reasons entirely beyond their control (e.g. illness) may submit a request for special consideration. Provided that notification and documentation are provided in a timely manner, and that the request is subsequently approved, no academic penalty will be applied.

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) for the missed test or course deliverable.

**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.**

No make-up exam will be given for a missed test. Other grading components will be reweighted to 100% of the total grade.

### **Late Assignments**

All assignments are due at the beginning of class on the date specified in the course outline. Late submissions will normally be penalized by 10% if the assignment is not received on the specified date, at the specified time. A further penalty of 10% will be applied to each subsequent day.

Students who, for reasons beyond their control, are unable to submit an assignment by its deadline must obtain approval from the instructor for an extension. Supporting documentation will be required as per the policy on missed tests and assignments.

### **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: [accessibility.services@utoronto.ca](mailto:accessibility.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 <http://www.portalinfo.utoronto.ca/content/information-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.