



Department of Marketing and Consumer Studies
REAL*4820
REAL ESTATE APPRAISAL
Fall 2018

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Office Hours: By appointment

Teaching Assistant: TBD
Room:
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Class Times and Location: Mondays & Wednesdays 11:30 am – 12:50 pm, MCLN 107

Prerequisites:

1. CIS*1000 or MCS*2020; and,
2. REAL*2820, ECON*3560, HTM*3070, or a knowledge of spreadsheets and permission of the Instructor.

Course Description and Objectives:

This course deals with the basic principles involved in valuing real estate. The market comparison, cost and income approaches of appraisal are covered. The major emphasis in the course is on using discounted cash flow projections to value income-producing real estate. The term project involves the use of a spreadsheet program to estimate property value for a property chosen by the student. While valuation of single-family homes is covered, the main emphasis is on investment real estate.

1. To understand the judgmental aspects to placing value on a real estate asset and why real estate is more difficult to value than other asset types;
2. To learn and apply the methods used by the appraisal profession to assess value of different types of (investment) real estate;
3. To learn and apply the Discounted Cash Flow approach to assessing cash flow and value of real estate assets; and,
4. To be able to calculate the tax implications of investment in real estate.

The course will use a combination of lectures related to the appraisal process and techniques as well as appraisal and investment exercises, discussion, and student group projects and presentations. The structure of this course requires significant individual study and preparation outside of class, especially with respect to the Excel work. The Excel skills taught in this class will also be requisite to succeed in Real Estate Development Project (REAL*4830) – as well as in many careers in real estate. **Thorough and consistent preparation and participation are necessary to succeed in this class.**

Course Materials and Resources:

This course uses a variety of materials and resources. One of your primary resources will be the course website (<http://courselink.uoguelph.ca>). All announcements, required and recommended readings, assignments and updates will be posted here. Check this site often.

1. UBC Real Estate Division, Real Estate Investment Analysis and Advanced Income Appraisal, 2017 edition. Available in bookstore, may be available used. Referred to as REIAAIA on the Course Schedule.
2. A financial calculator (e.g. Texas Instruments BA II Plus or HP 12C) will be useful for assignments; we will also make extensive use of Microsoft Excel throughout the course.

Method and Timing of Evaluation:

Your performance will be evaluated based on the following:

Assignment/Examination	Weight	Due Date
Quizzes	10%	On-going
Midterm Take-home Exam	25%	October 17
Term Project & Presentation	25%	November 30
Final Exam	40%	December 7

Quizzes

There will be six quizzes throughout the course. The lowest quiz score will be dropped from the calculation of this grade. **All quizzes are available in the content area of Courselink and must be completed before the following Wednesday's class start.** Work is not accepted after it has been discussed in class.

Midterm Exam

The midterm will be a take-home project/exam, submitted in hard copy.

Term Project

Guidelines for the term project are attached to this syllabus. Please read these carefully before writing your report. You will want to start organizing the project early in the term.

Final Exam

This exam will be cumulative, including material from the assignments, term projects, exercises, all reading material and issues discussed during the lectures, guest speaker(s), and student presentations. It may include multiple choice, true/false, and essay questions. It will include extensive calculation work.

Course Philosophy and Approach:

This course will be split into three parts. For the ten weeks of the course, Wednesdays will be spent learning the Income Approach to value and Investment Analysis. These will be heavy calculation days, and you should bring your laptop to class. The work (including assignments) from this section will be cumulative, so falling behind will be problematic. Mondays will be spent studying the balance of appraisal concepts and approaches. The last two weeks of class will be dedicated to student presentations. Students are expected to attend these presentations, allowing everyone exposure to real life applications of appraisal content; content from the presentations may be included in the Final Exam.

Course Schedule and Key Dates:

Date	Class	Reading	Assignment DUE
10-Sep	Syllabus Review: Intro to Appraisal	REIAAIA 1.1-1.22	
12-Sep	IAW I: Intro to Investment Analysis, Rent Roll, Year 1 NOI	REIAAIA 2.1-2.6, 2.20-2.24, 2.31-2.36	
17-Sep	Market Analysis	Article Courselink	
19-Sep	IAW II: Direct Capitalization Underwriting	REIAAIA 5.1-5.12	Quiz A
24-Sep	Sale Comparison Approach	Textbook excerpt	
26-Sep	IAW III: TVM Review, Intro to DCF	REIAAIA 2.25-2.30, 5.12-5.14	Quiz B
1-Oct	Cost Approach, Highest & Best Use	AI Common Errors & Issues	Project Proposal
3-Oct	IAW IV: Return Measures	REIAAIA 8.1-8.10	Quiz C
8-Oct	NO CLASS - Thanksgiving		
10-Oct	IAW V: Cost and Sales Comparison Approaches Exercise	<i>Midterm Released</i>	Quiz D
15-Oct	Computer Session to Work on Midterm		
17-Oct	NO CLASS - Work on Finalizing Midterm Submission		Midterm
22-Oct	Market Analysis Case Studies	<i>Sit with your group</i>	
24-Oct	IAW VI: CCA		
29-Oct	Guest Speaker: TBA		
31-Oct	IAW VII: ATER	REIAAIA 7.8-7.9, 7.21-7.26	Quiz E
5-Nov	Mass Appraisal	Textbook excerpt and JPM article	
7-Nov	IAW VIII: CCA & ATER Exercises		Quiz F
12-Nov	Mass Appraisal Case Studies	<i>Sit with your group</i>	
14-Nov	NO CLASS - Work on Term Project		
19-Nov/ 30-Nov	Team Presentations	Term Projects Due November 30 by 11:59 P.M.	

Additional Important Dates:

Review Class will be scheduled close to the final exam (tentatively December 10)
 Final Exam is scheduled on December 12, 11:30 A.M. – 01:30 P.M., location TBA

Note: The schedule of learning activities may require modification from time to time. Any changes will be announced in class and/or on Courselink.

Course Evaluation:

Course and instructor evaluation for the course will be handled either via a separate Courselink site or in class during the final two weeks of the term.

Syllabus Modifications:

The instructor reserves the right to modify the course syllabus. Such modifications will be announced in class before implementation.

Policies and Regulations

All students are expected to abide by the University's academic regulations in the completion of their academic work, as set out in the [undergraduate calendar](#). Some regulations are highlighted below:

1. *Academic Misconduct:* The University of Guelph is committed to upholding the highest standards of academic integrity and directs all members of the University community – faculty, staff and students – to be aware of what constitutes academic misconduct and to do as much as possible to prevent academic offences from occurring. The University of Guelph takes a serious view of academic misconduct and it is your responsibility as a student to be aware of and to abide by the University's policy. Included in the definition of academic misconduct are such activities as cheating on examinations, plagiarism, misrepresentation, and submitting the same material in two different courses without written permission.
2. *Academic Consideration:* Students who find themselves unable to meet course requirements by the deadline or criteria expected because of medical, psychological or compassionate circumstances beyond their control, should review the regulations on Academic Consideration in the Undergraduate Calendar and discuss their situation with the instructor, Program Counsellor or Academic Advisor as appropriate.
3. *Students with Disabilities:* If you are registered with the Centre for Students with Disabilities and will require some form of accommodation in the completion of the required learning activities for this course, please meet with me during the first week of classes.
4. *Religious Holidays:* Should a student need to miss scheduled tests, midterm examinations, final examinations, or requirements to attend classes and participate in laboratories for religious reasons, please advise the instructor within two weeks of the distribution of this course outline so that alternate arrangements can be made.
5. *University Grading Scheme:* This course follows the University grading scheme outlined in the Undergraduate Calendar.
6. *Appeals and Drop/Add Procedures:* This course follows the University's standard procedures regarding appeals as well as dropping or adding a course. The details of these procedures may be found in the Undergraduate Calendar.

ASSIGNMENTS:

Quizzes

Each Wednesday, we will be working through an example asset in class as we cover real estate financial and investment analysis, building an Excel spreadsheet for use in the project over the semester. Then, similar content will be assigned for a different property. Frequently, a Courselink quiz will be due by the beginning of the following WEDNESDAY class. This quiz is actually just an assignment (so it may be completed open book), and the purpose is to check if you are successfully able to apply the analysis techniques learned in class to the assigned asset on your own. Of the six quizzes, the lowest score will be dropped in calculating your Quiz grade.

Term Project

The term project is a practical application of the material learned in the course. The project counts for 25% of your course grade: presentation 5%, written report 20% (a portion of which will be allocated to the Proposal). Your group's presentation must be submitted to Courselink prior to the class in which you are presenting. A hardcopy of your report is due in my office by 4 P.M. on the due date listed in the Course Schedule; spreadsheets for your project and your peer evaluation form must be submitted through Courselink by the same time.

The project involves choosing a property and valuing the existing building(s) on the site. The real estate involved must be income producing (*e.g.* an apartment building, office building, shopping center), must have more than one tenant, and you must use Direct Capitalization and DCF techniques to analyze it; you must also consider the tax position of your investor. You may also use other appraisal techniques if you wish to check your value.

Groups: Projects should be completed in groups of two or three students – sign up together on Courselink once you have formed your group. **Reference your group number on all submitted materials.**

Data Collection: You will need the following information about your property (either provided by the current owner, or property manager, or investigated through some other means):

1. Number of units and size (apartment), number of square feet per unit (commercial)
2. Current tenant rents, length of leases, any contractual rent increases, vacancies etc.
3. What is included in rent? Is there other income from the property (laundry, parking, etc.)
4. Operating costs and which party (landlord or tenant) is responsible for paying them

You do **not** need to know anything about the current owner's financing or income tax situation; you will make assumptions about these for your hypothetical investor.

Proposal: Submit through Courselink a one-page outline, by the date indicated in the Course Schedule, describing the project you intend to complete, including a description of the property, the data you have collected to date (and any remaining data you need to obtain), and the analysis you are planning. It is advisable that your group meets with the professor after gathering your initial data.

Presentation & Report: Approach your reporting as though you have been hired by a potential property investor to evaluate the financial implications of the investment and identify a suggested purchase price. Your report should include sufficient market and financial analysis to support your conclusions. Presentation Guidelines and recommendations are available on Courselink.

Guidelines:

1. The report should be 10-15 double-spaced pages of text, plus pictures, charts, graphs, maps, cash flow projections, as required. Number the pages in your report and label/reference all exhibits.
2. You are expected to use the cash flow projection model taught in class for analysis of the term project cash flows. Your term project should include "what if" sensitivity analysis of the impact to the project if your major assumptions are optimistic.
3. Your results must include:
 - A market value of the property.
 - A recommendation to the investor:
 - Purchase or do not purchase at listed price or market value.
 - If you advise not to purchase, provide the maximum price at which investment would be advisable.
 - Sensitivity analysis.
4. Your report should follow the outline shown below:
 - Cover letter to the client: include assumptions about the client's tax situation, risk profile, conclusions about the investment and its value, date of valuation, etc.
 - Executive Summary: briefly describe the analysis you did and conclusions about the market. Primarily summarize your conclusions about the investment, including the value and date of value.
 - Market Description: tell the story of the region, city, and neighborhood in which the subject property is situated.
 - Property Description: include a description of the property, location, zoning, amenities, and any other features that affect value. Include maps and pictures.
 - Data Analysis: analyze the existing leases, income, expenses, capitalization rates, and the demand and supply for this type of space in the market. State your conclusions about the market rates and vacancy. You will need market evidence (data reports, comparables) to support these conclusions.
 - Highest and Best Use: using your analysis of the property and the market, state the H&BU as though vacant and as-is (make sure to take demolition costs into consideration).
 - DCF analysis and Income Approach: clearly state and support any assumptions.
 - Cost and/or Sales Comparison Approach (optional).
 - Reconciliation of Market Value.
 - Investor Analysis.
 - Sensitivity/what-if analysis.
 - Conclusions.
 - Works Referenced.

Advice:

1. Avoid special use properties. These are much more complicated to value. Such properties include assisted living facilities, student housing, farms, hotels, restaurants, and a wide variety of other types. As a guideline, avoid any property that earns a substantial part of its income from a source other than rent.
2. Avoid anything condominiumized. We can only value individually owned properties – properties that can be sold by one individual or company. If a building has several owners, then one entity cannot sell the whole building, so you should not try to value it as one property. You can value the condominium units (office, multifamily, etc.) that are owned by one investor in one building.
3. Consider avoiding homes converted to student housing. While they may seem simple, these are actually very difficult to correctly value because you cannot compare them to other homes that are owner occupied. Additionally, you will need to verify that the home is operating legally, which is based on the number of occupants, the manner in which the property has been divided, etc.
4. Your property should have at least three tenants but not hundreds.
5. Single-use properties will be easier to value. You will only need to complete market research (including finding supporting rental and expenses rates) for one type of property, not multiple.
6. Finding market data and comparables in major metro areas (the GTA, Waterloo, etc.) may be easier than in minor markets (Guelph).
7. Remember to round your estimates. Consider just how exact you are saying your estimate is (\$564,732 value vs. \$565,000 value).