SUBJECT OUTLINE

FIN 329 REAL ESTATE PLANNING

WOLLONGONG CAMPUS

6 credit point
Autumn 2006

Subject Co-ordinator and Lecturer: Connie Spasich
Room 40.305 Ph. 42 213605
e-mail: connie_spasich@uow.edu.au
Consultation times: to be advised on School of Accounting and Finance noticeboard Bldg 40 Level 3
Calculators and Spreadsheets

Most finance subjects involve at least some problems requiring calculation. Many of these can be solved using a scientific calculator (powers, square roots, logarithms and exponentials, basic statistical functions) and students should make sure they have access to such a calculator at the beginning of each subject. Students will also find a range of statistical, scientific and financial functions in electronic spreadsheets, notably Microsoft Excel, and these are useful for the preparation of submitted work where manual calculation is not strictly required or recommended.

However, students should also consider purchasing, if at all possible, a financial calculator. These offer nearly all of the functions found in scientific calculators, as well as compound interest and discounting, amortization, bond yields and investment appraisal functions (including net present value and internal rate of return). Students will find these are of great benefit in their finance studies and in their future careers. Examples include the Casio FC-100V, Sharp EL733A and EL735, Hewlett-Packard HP 10bII, 12c, 12c Platinum, 17bII+ and Texas Instruments BA II Plus.
Subject details

Description

This subject analyses and examines the criteria involved in property planning and investment. The subject entails comprehensive discussions on issues such as the financing (underwriting) of residential, commercial and income properties, proposed projects, real estate capital markets and securities, legal aspects of real estate planning, the various types of mortgages available, residential financial analysis, the returns and various types of risks involved, and, the disposition and renovation of real estate.

Student Learning Outcomes

After having successfully completed this subject, students should be able to access a knowledge base to:

1. demonstrate an understanding of the different forms of real estate investment

2. be able to evaluate real estate investment decisions from a financial, legal and taxation perspective, including using basic calculation tools for real estate planning

3. Understand the place of real estate investment as part of an investment portfolio.

Method of delivery and attendance requirements

Students need to attend the 2 hr lecture/workshop and 1 hour of tutorials per week. Students must enrol in one of the tutorials below.

Lecture/workshop: Monday 9.30-11.30am Bldg 67 Room 102

Tutorial: Thursday 11.30-12.30am Bldg 19 Room G015

In order to maximise learning outcomes, it is strongly recommended that students attend all lecture and tutorial.
Lectures/Workshops

Comprehensive powerpoint summaries of the book chapters will be provided on the subject website. While parts of these will be reviewed in lectures/workshops I do not expect to go over all of them and they are provided for your benefit in summarising the chapters. The lecture time will also be spent looking at specific local examples, when available, which relate to the issues on hand as well as doing practical workings and examples where appropriate to the topic.

Participation/contribution to tutorials

Students are expected to actively participate in tutorials by presenting answers to tutorial questions and/or make a relevant contribution to class discussion.

Performance Level

To be eligible to pass this subject, students must achieve an overall mark of at least 50%, which includes obtaining at least 45% in the final examination, and complete all assessment tasks.

Performance Level/Study time

FIN329 is a 6 credit point subject, which requires a minimum of 12 hours per week including attendance at lecture and tutorial. Tutorial attendance is compulsory and students are expected to:

1. prepare answers for all tutorial work prior to tutorial attendance and bring two copies to the tutorial. One copy will be taken up by the tutor at the beginning of the tutorial (see assessment task 1)

2. participate in tutorials by contributing to discussion/s.

WebCT

A basic web site for this subject will be made available in due course via learning on line at http://www.uow.edu.au/LOL. Please note that your communications on this website must relate to FIN329 and comply with University Policy on web use. Students may be denied access for any violations of this policy or for the use of inappropriate language.

It is envisaged that lecture overheads, additional readings and other materials will eventually be posted on the site once established. Answers to tutorials questions will NOT be made available and it is up to the students to prepare answers for tutorials beforehand and then make any amendments/corrections during tutorial classes
Major Text


References:


Readings of Interest


Other Materials

If you do not have a financial calculator it will be useful to have access to present and future value tables for both compound and simple interest and annuities to make some of the calculations easier to compute manually.
Contacts

Subject Coordinator/Lecturer/Tutor

Connie Spasich  
School of Accounting and Finance  
Building No 40 Room No 305

Telephone  61 2 42213605  
Facsimile  61 2 42214297  
Email  Connie_spasich@uow.edu.au

Student administration

Telephone  61 2 4221 3927  
Facsimile  61 2 4221 4322  
Email  studenq@uow.edu.au  
Student OnLine Services  http://www.uow.edu.au/student/sols

Library

Telephone  61 2 4221 3548  
Web  http://www-library.uow.edu.au

Distance students studying within Australia should refer to the Off-Campus Library Services Student Guide contained in their subject package. Distance students studying outside Australia should contact their subject coordinator as arrangements for library services may be available within their own country.

Purchasing of books (Unishop)

Telephone  61 2 4221 8050  
Facsimile  61 2 4221 8055  
Email  unishop@uow.edu.au  
Assessment Guidelines

General Criteria
Assessment for this subject will comprise marks for completion of tutorial work, 3 multiple choice quizzes (each comprising 25 questions and of 30 minutes duration during lecture times) and a final exam. To pass this subject, students must obtain a satisfactory mark (generally interpreted to mean 45%) in the final examination and complete all assessment tasks. Marks may be scaled.

Attendance at tutorials is compulsory. Active participation in tutorials will be taken into account for those students whose final results are on the margin between grades.

Assessment Tasks (overview)

<table>
<thead>
<tr>
<th>Task</th>
<th>Mark</th>
<th>Weighting</th>
<th>Due date</th>
</tr>
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<tbody>
<tr>
<td>Tutorial work</td>
<td>15 marks</td>
<td>15</td>
<td>weekly</td>
</tr>
<tr>
<td>Multiple Choice Quizzes(3)</td>
<td>30 marks</td>
<td>30</td>
<td>Wks 5,7 &amp; 10*</td>
</tr>
<tr>
<td>Final exam</td>
<td>55 marks</td>
<td>55</td>
<td>university</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Exam period</td>
</tr>
<tr>
<td>TOTAL</td>
<td>100 marks</td>
<td></td>
<td></td>
</tr>
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</table>

To be eligible for a pass in the subject you must:
1. Complete and hand in tutorial work
   *Tutorial work must be completed prior to attending tutorial. **A copy of the tutorial work will be taken up each week at beginning of the tutorial** and, depending on the quality of presentation, amount of work done and correctness of answers, **will be given a mark out of 1.5.** The best 10 marks will comprise the mark outlined above. Late submission for tutorial work will not be accepted and it is up to the student to ensure a minimum of 10 tutorials are handed in. A penalty will apply if students submit less than 10 tutorials.

2. Sit for and complete the three (3) multiple choice quizzes.
   *The quizzes will be held during lecture times in week 5 (20 March), week 7 (3 April) and week 10 (1 May). No supplementary quizzes will be held.

3. Sit for the final exam and achieve a mark of at least 45%

Assessment Tasks
Performance grades

<table>
<thead>
<tr>
<th>Grade</th>
<th>Description</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>HD</td>
<td>High Distinction</td>
<td>85–100%</td>
</tr>
<tr>
<td>D</td>
<td>Distinction</td>
<td>75–84%</td>
</tr>
<tr>
<td>C</td>
<td>Credit</td>
<td>65–74%</td>
</tr>
<tr>
<td>P</td>
<td>Pass</td>
<td>50–64%</td>
</tr>
<tr>
<td>PC</td>
<td>Pass Conceded</td>
<td>45–49%</td>
</tr>
<tr>
<td>F</td>
<td>Fail (unsatisfactory completion)</td>
<td>0–44%</td>
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Assessment Tasks (detail)

Task 1: Tutorial work

Due date: Weekly:

At the beginning of each tutorial (for a minimum of 10 tutorials), students must hand in a copy of their completed tutorial work. The work will be marked on the quality of presentation, amount of work and correctness of answers. If the student hands in his/her work less than 10 times, then a penalty of 1 mark for each tutorial less than 10 will be deducted from overall mark given for this assessment.

Weighting:

Total: 15 marks (1.5 marks for best 10)

Penalties:

If less than 10 tutorials are handed in, a penalty of 1 mark for each tutorial not handed in will apply.
Task 2: Quizzes (3)

Due date: Quiz 1 During Lecture Mon 20 March 2006 -wk 5 (based on chapt. 1-5 inclusive)
Quiz 2 During Lecture Mon 3 April 2006 -wk 7 (based on chapt. 6 – 11 inclusive)
Quiz 3 During Lecture Mon 1 May 2006 -wk 10 (based on chapt. 12 – 17 inclusive)

Weighting: Total: 30% (10% each quiz)
Length: 30 minutes each.

Each quiz will consist of 30 multiple choice questions (based on the work outlined above) for which you will be given 30 minutes to complete during the lectures on dates indicated above. No extension of time will be given for latecomers and from previous experience the 30 minutes will be ample time. **There will be no supplementary quizzes.**

Task 3: Final Examination

Due date: The University examination period is from 3rd June to 16th June 2006. The final examination date for FIN 329 will be confirmed during the course of the semester and published on SOLS 3-4 weeks before the examination period. Supplementary examinations will be held during the university’s official supplementary examination period, to be advised.

Weighting: 55%
Time allowed 3 hours 15 minutes
Structure of Paper A total of 14 questions comprising a combination of relatively short answers style theory questions and practical, calculations style questions
Other information Any other relevant information relating to the exam will be posted on the subject’s web page at the end of week 13.
PLAGIARISM

Plagiarism means using the ideas of someone else without giving them proper credit. For example, that someone else may be an author, critic, journalist, artist, composer, lecturer, tutor or another student. Unintentional plagiarism can result if you don’t understand and don’t use the acceptable scholarly methods of acknowledgement. Whether plagiarism is deliberate or unintentional, the University may impose penalties, which can be very severe. When it is desirable, or necessary, to use other people’s material, take care to include appropriate references an attribution. Plagiarism will not be tolerated and has led to expulsion from the University.

Students should visit the following University website and become familiar with the University's policy on Plagiarism.

Rules, Codes of Practice & Policies

C1 University Policies

Information on the following University Policies can be found at the websites below:

<table>
<thead>
<tr>
<th>Policy</th>
<th>Website</th>
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</table>

- see brief explanation of policy below.

C1.1 Non-discriminatory Language

The Faculty of Commerce supports the University’s policy on the use of non-discriminatory language. It is the responsibility of students to ensure that they understand and abide by this policy. The policy is available at:

http://staff.uow.edu.au/eeo/nondiscrilmlanguage.html
C1.2 Special Consideration Policy

The Faculty of Commerce recognises that it has a responsibility to ensure equity and consistency across its subjects for all students. Sometimes, in exceptional circumstances, students need to apply for special consideration in order to complete all assessable work.

The University applies strict criteria to the granting of special consideration. Before applying for special consideration students should carefully read the University’s policy. The policy can be found at:


Please note especially the item at 5.3: For all forms of assessment students are normally required to seek special consideration before the date scheduled for submission or performance of the assessment item, but no more than five working days after the date when the item was due.

C1.3 Student Academic Grievance Policy

The Faculty of Commerce aims to provide a fair, equitable and productive learning environment for all its students. The Student Academic Grievance Policy seeks to support the achievement of this goal by providing a transparent and consistent process for resolving student academic grievances.

Any student who has a grievance over a result should obtain a Faculty of Commerce Appeal of Assessment Form from the Schools or the Sub-Dean’s Unit. The student should firstly take the form to the marker/lecturer to discuss the matter and, if the student is still not satisfied, s/he should take the next step as outlined on the form.

Once the grievance has been considered by the Faculty, if the student still feels the situation has not been fully resolved s/he may consult the Dean of Students. However, the Dean of Students can have no input into the academic judgement of the lecturer and can only review the grievance to ensure proper procedure has been followed.

For more information, please consult the policy in full at

C2 Faculty and school policies

Referencing

WHY DO YOU NEED TO REFERENCE?

At University it is necessary to acknowledge the sources of information and ideas that you have incorporated in your assignments. Failure to do this thoroughly may result in accusations of plagiarism: this is the academic equivalent of stealing (because by not acknowledging someone else's work, you are presenting it as your own). Plagiarism is taken very seriously by the University and may result in expulsion from the University.

Referencing is not only about acknowledging other people's work: accurate referencing and lists of references are beneficial when researching a topic as they allow the reader to follow up information and read further into the area. In a sense, references provide readers with clues to help them explore different avenues of a topic. This aspect of referencing will become more valuable to you as you progress in your studies.

There is a correct procedure that must be followed when referencing and using footnotes. Not complying with these set techniques and format will most likely result in loss of marks.

When writing an essay it is easiest to reference as you go, making sure you are writing down all relevant information. This will save hours trying to find the source again in the library.

THE HARVARD SYSTEM OF REFERENCING

The Faculty of Commerce uses the Harvard system of referencing. This system makes use of short references within the body of the text. It is supplemented by a detailed list of references at the end of the text, which provides all the information necessary to find the source material. In-text references include the author and year of publication, and where necessary the page number(s).

It is the responsibility of students to ensure that they are familiar with the Harvard system of referencing and that they use it accurately in all written work submitted.

Students should consult the following University Library website for a detailed explanation and examples of the Harvard system of referencing.


Citation of Electronic Sources

It is necessary for students to reference all sources used in their written work, including file transfer protocol sites, worldwide web sites, telnet sites, synchronous communications (MOOs, MUDs, IRC, etc.) Gopher sites, and email, Listserv and Newsgroup citations.

It is the responsibility of students to ensure that they are familiar with the accepted Faculty of Commerce practice for referencing electronic material and that they use it accurately in all written work submitted.

Students should consult the following University Library website for a detailed explanation and examples of how to reference electronic material.

C3 Support Services And Facilities

The following details are relevant to the Wollongong campus. Students at off-campus sites should consult staff at local centres.

Learning Resource Centre

Learning Development offers a range of free services to all enrolled students who wish to improve their academic or English language skills. There are a range of workshops available including; essay writing and editing; reading for assignments; grammar; presentation skills; pronunciation and exam preparation.

For information on language and academic skills workshops, or to make appointments for consultations, please visit the Learning Resource Centre (LRC), Building 19, Ground Floor, Room G102, or Phone 02 4221 3977. For further information visit the website:


Faculty Librarians

Each faculty has a Faculty Librarian who is available to help with research related enquiries. Research Help Desk staffs are also available in the Library to assist with research needs.

The Faculty Librarians for Commerce can be contacted as follows:

email: lib_commerce@uow.edu.au
telephone: 42 213078

Disability Liaison Officer

The Disability Liaison Officer (DLO) can provide advice on how particular disabilities affect university study and information on resources available at the University for assisting students with disabilities. Students commencing courses are advised to contact the Disability Liaison Officer prior to the beginning of their first session of study.

For further information on services offered, consult the Disability Services website or contact the office.

web address: http://www.uow.edu.au/student/services/ds/
telephone: 42 213445
fax: 42 215667

Faculty Disability Advisers

Faculty Disability Advisers are academic staff who provide assistance and support to students with disabilities within their Faculty and act as an intermediary between the student and the Faculty’s academic and general staff. They provide support, educational advice and referral to appropriate staff on issues related to teaching and learning within the Faculty and the University. Students are advised to communicate specific information about the ways in which their disability affects learning to the Faculty Disability Adviser as soon as possible after enrolment.
The Faculty of Commerce Disability Adviser is Mr. Ron Perrin. Mr Perrin can be contacted as follows:

Office location: Building 40, room 224  
email address: ron_perrin@uow.edu.au  
telephone: 42 214118

**Woolyungah Indigenous Centre**

The Woolyungah Indigenous Centre provides the focus for Learning, Research and Support for Aboriginal and Torres Strait Islander People and other indigenous students. The Centre also runs an Indigenous Specific Orientation Program for students who gain entry to the University through the alternative admissions program.

For further information on services offered, consult the Woolyungah Indigenous Centre website or contact the office.

Centre location: Building 30  
web address: http://www.uow.edu.au/aec/  
telephone: 42 213563  
fax: 42 214244
Special Questions to be completed for tutorials

Special Question 1 (SQ 1)

Carry out a simple research exercise and find out four (4) different zonings of land in the Illawarra Local Government Area: list briefly what use of the land each zoning allows and how you think this may effect the value of the land (you may source this information directly from Wollongong Council officers or the Council's web page, or from secondary sources such as reputable valuers and real estate agents in the area).

Special Question 2 (SQ 2) Risk in Commercial Real Estate

The primary uncertainty or risk in any investment is the extent to which actual cash flows vary from expected cash flows. Risk is one of the most critical factors to consider when making any investment. Because real estate investments vary in the degree of risk, investors must carefully assess or measure the risks associated with each investment alternative. Failure to understand the consequences of risk and uncertainty may cause the real estate investor to realize a significantly different return than anticipated. In addition, the investor loses the opportunity to invest in other, perhaps more lucrative, alternatives.

With reference to systematic risk in the real estate market, briefly analyse some changes which have taken place in the economy (including government policies) over the last 4 years and describe the effects these have had on the real estate market.

Special Question 3 (SQ 3) Section: Investment Analysis

Reducing Investment (non-systematic) Risk

The majority of real estate investments provide investors with positive cash flows, tax benefits, and satisfaction. However, as with any other investment, property-specific conditions and market trends should not be ignored. Too often, real estate investors rely on past trends and gut feelings, and do not spend sufficient time analyzing the investment before getting involved. Common mistakes such as failing to check numbers, inspect the property, or have adequate insurance can dramatically increase the risk of an investment, but can easily be avoided.
Real estate investments by their very nature (different locations, different tenants, etc.) vary in the degrees of risk. While risk and return on investment generally have a direct relationship to each other, some risks can be reduced or eliminated by practicing due diligence. The best way to eliminate (or at least reduce) risk in a real estate investment is to take time to study the investment and learn about the market. There are many common mistakes that investors can avoid to reduce the risk of a real estate investment. These are discussed in the online Total Real Estate Solutions article, How to Eliminate Risk in Real Estate Investment.

The address of this article is as follows:


After reading the article, answer the following questions:

1. Name a few (at least 2 or 3) of the common failures by first time investors.

2. What seemingly insignificant but very important details do real estate investors tend to forget?

3. Why should negative cash flows be avoided?

4. List other ways to ensure excellent returns on investments.

**Special Question 4 (SQ 4) Section: Valuation & Appraisal**

Methods of Valuing Real Estate

The appraisal of real estate is usually conducted using three methods. These methods include the comparable sales method, the income approach method, and the cost approach method. The comparable sales method is the simplest of the three methods, and looks at comparable properties sold within a reasonable recent time period to help in the determination of an estimated value. The income approach estimates the value of a property based on the income that it produces from rents. The cost approach estimates value by analyzing the specific costs associated with the land and improvements.

A final valuation of property is usually made from a combination of these three methods. Because there are differences in the three approaches, the final valuation is usually a weighted average of the different methods based on the experience and expertise of the appraiser. This is discussed in the online article, Real Estate Valuation in Business Plan Preparation, by Gary Chabot,

http://www.nhsbdc.org/Article13_Real%20Estate%20Valuation.htm
After reading the article and your textbook, answer the following questions.

1. What are the three methods used in the valuation of real estate?

2. What are the two factors needed to calculate real estate value using the income approach method?

3. Can value adjustments be made on the comparable sales method of real estate valuation?

4. Which method appraises real estate by evaluating the replacement value of property?

Special Question 5 (SQ 5)

Special Question to prepare for week 13: Outline a contentious, major, recent (within last 5 years) development project within the local area and describe the obstacles and risks (and why they arose) of the project. (use the internet to find information: One example you could use is the Stocklands development of Sandon Point, also the recent Orange Grove project could also be used.) Approximately 2 pages required.
**LECTURE AND TUTORIAL SCHEDULE 2004-** Chapter and questions refer to main textbook, the SQ’s (special questions are just prior to this schedule in this outline)

<table>
<thead>
<tr>
<th>Week/Date</th>
<th>Topic</th>
<th>Chapters</th>
<th>Tutorial Questions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 20 Feb</td>
<td>Introduction to subject - The nature of Real Estate and Real Estate Markets</td>
<td>1</td>
<td>No tutorials in week 1</td>
</tr>
<tr>
<td>2 27 Feb</td>
<td>Value and Real Estate Decisions; and The Effects of time and Risk on Value</td>
<td>2 &amp; 3</td>
<td>Chapter 1: 1, 6, 7, 8 &amp; SQ 1</td>
</tr>
</tbody>
</table>
| 3 6 March | Sources and Limitations to Value: Legal Foundations and Market determinants | 4 & 5 | Chapter 2: 1, 2 3,5  
Chapter 3: 4, 7, 16, & 17 |
| 4 13 March | Government policies and controls and forecasting ownership benefits and value (market research methods) | 6 & 7 | Chapter 4: 2, 4, 5,6  
Chapter 5:1, 4, SQ2 |
| 5 20 March | Market valuation and appraisal: Using sales comparison, cost approaches and income approach QUIZ 1 | 8 & 9 | Chapter 6:2,3,4,5,6, Chapter 7: 2, 3 and 4 for one site, 5 |
| 6 27 March | Financing Real Estate: Laws of contracts and Mortgage calculations | 10 & 11 | Chapter 8: 1—7  
Chapter 9: 1, 3, 5, 6, 8, 9, 10, |
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<tr>
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<th>Chapters</th>
<th>Tutorial Questions</th>
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</thead>
<tbody>
<tr>
<td>7 3 April</td>
<td>Financing Real Estate: Residential Mortgage Types, Sources and Borrower Decisions, QUIZ 2</td>
<td>12, 13, 10: 1, 3, 6, 11</td>
<td>Chapter 10: 1, 3, 6, 11</td>
</tr>
<tr>
<td>8 10 April</td>
<td>Commercial Mortgage Types, Sources and decisions; Sources of Commercial debt and equity capital</td>
<td>14 &amp; 15 12: 3, 4, 5, 7, 8, 13: 5, 7, 8, 9</td>
<td>Chapter 12: 3, 4, 5, 7, 8, 9</td>
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<td></td>
<td><strong>MID SESSION BREAK</strong></td>
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<tr>
<td>9 24 April</td>
<td>Value in Investment Opportunities &amp; Enhancing Value through ongoing management</td>
<td>16 &amp; 17 14: 1, 5, 8, 9, 15: 2, 3, 6, 7, 11</td>
<td>Chapter 14: 1, 5, 8, 9, 15: 2, 3, 6, 7, 11</td>
</tr>
<tr>
<td>10 1 May</td>
<td>Conveying real property interests and real estate brokerage and listing contracts QUIZ 3</td>
<td>18, 19, 16: 1-5, 9, 11 17: 3, 4, 7, 8, 9</td>
<td>Chapter 16: 1-5, 9, 11, Chapter 17: 3, 4, 7, 8, 9</td>
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<tr>
<td>Week/Date</td>
<td>Topic</td>
<td>Chapters</td>
<td>Tutorial Questions</td>
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| 11 8 May  | Contracts for sales and closing and Leases property types | 20 and 21 | Chapter 18: 4, 5,7  
Chapter 19: 1, 4, 5 |
| 12 15 May | Income tax, Risk Management in a Portfolio Context, Project development | 22, 23 and 24 | Chapter 20: 1-5, 6,7  
Chapter 21: 1, 2, 5, 7, 8. |
| 13 22 May | Review | | Chapter 22: 6-9  
1 Chapter 24: 1, 2, 5, 6,  
SQ5 |