Subject Outline

FIN 329 REAL ESTATE PLANNING
WOLLONGONG CAMPUS

6 credit point
Spring 2004

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e-mail: connie_spasich@uow.edu.au

School of Accounting and Finance
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Subject details

Description

Real estate Planning focuses on the criteria involved in property planning. 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 estate planning, the various types of mortages available, residential financial analysis, the various types of risks involved, and, the disposition and renovation of real estate.

Objectives

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

Two hours of lectures will be delivered face to face each week during the semester. There will also be a one hour tutorial each week.
WebCT

This is the first time this subject is being offered and a web page is in process of being developed but at the time of printing this outline the details were not available other than that it will be accessible on [http://www.uow.edu.au/LOL](http://www.uow.edu.au/LOL). It is envisaged that lecture overheads, additional readings and other materials will eventually be posted on the site once established.

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.

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

**Lecture/tutorial times**

<table>
<thead>
<tr>
<th>Day</th>
<th>Time</th>
<th>Wollongong Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lecture</td>
<td>Wednesday</td>
<td>1.30-3.30pm</td>
</tr>
<tr>
<td>Tutorial</td>
<td>Wednesday</td>
<td>3.30-4.30pm</td>
</tr>
</tbody>
</table>
TEXTS
You will also need 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.

References:


Readings of Interest


Contacts

Subject Coordinator/lecturer/tutor

Connie Spasich
School of Accounting and Finance
Building No 40  Room No 319
Telephone 61 2 42213605
Facsimile 61 2 42214297
Email Connie_spasich@uow.edu.au

Consultation times

Monday 9-11am
Tuesday 12.30-2.30pm

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

Assignment Tasks

<table>
<thead>
<tr>
<th>Assignment</th>
<th>Weighting</th>
<th>Due date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weekly tutorial assignments</td>
<td>15 marks</td>
<td>15 weekly*</td>
</tr>
<tr>
<td>Mid-session exam</td>
<td>25 marks</td>
<td>25 15 Sept.</td>
</tr>
<tr>
<td>Final exam</td>
<td>60 marks</td>
<td>university</td>
</tr>
</tbody>
</table>

TOTAL 100 marks

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 the beginning of the tutorial and 5 of these will be marked out of 5. The best three out of these will be used for the weekly tutorial assignment mark out of 15. Due to the textbook not being available until week 4, there is an amendment to the above, in that tutorial work for weeks 2-5 inclusive will be taken up at the beginning of week 5 tutorial. From week 6 onwards work will be taken up weekly as outlined previously.
You must attend a minimum of 83% (ie 10) tutorials to be eligible for a pass in the subject.

2 Sit for the mid session exam
The mid-session exam will now take place on Wednesday 15 September during the lecture time. It will comprise a combination of multiple choice and a calculation/analysis question.

3 Sit for the final exam and achieve a mark of at least 50%

Performance grades

<table>
<thead>
<tr>
<th>Grade</th>
<th>Description</th>
<th>Percentage</th>
</tr>
</thead>
<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>
</tbody>
</table>
Special Consideration

University policy requires students who, through serious illness or other circumstances beyond their control, are unable to attend an examination or meet any of the other course requirements, to submit medical or other documented evidence as soon as possible after the event to support their request for special consideration.


Supplementary examinations

Students should note that supplementary examinations are not an automatic entitlement on the submission of a request for special consideration. In cases where the decision is made to allow a supplementary examination, students will usually be required to take the examination at a date to be determined by the School within three weeks of the end of the formal examination period. Students will be notified of the exam at least seven days beforehand. It is every student’s responsibility that the University has a correct record of your current address.

Full details of the University’s policy regarding special consideration are available on the web at [http://www.uow.edu.au/handbook/courserules/specialconsideration.html](http://www.uow.edu.au/handbook/courserules/specialconsideration.html) students should familiarise themselves with these policies.

Disability Policy

If a student with a disability requires reasonable accommodation in this subject, they are strongly advised to discuss the issues early in the session with one of the following people: the Disability Liaison Officer, Faculty Disability Adviser and/or the Subject Coordinator. Students with a disability should also register with the University of Wollongong Disabilities Unit. More details can be found on the web at [http://www.uow.edu.au/student/services/disabl.html](http://www.uow.edu.au/student/services/disabl.html)

Non Discriminatory Language

As part of its Equal Opportunity/Affirmative Action initiatives, the University of Wollongong endorses a policy of non-discriminatory language practice and presentation in all academic and administrative activities of the University. The policy is available at [http://staff.uow.edu.au/eeo/nondiscrimlanguage.html](http://staff.uow.edu.au/eeo/nondiscrimlanguage.html)

Receipt of Assessment Tasks

It is your responsibility to ensure that you have a receipt signed by your lecturer/tutor,
Assessment Tasks

Task 1: Weekly tutorial questions

Due date: At beginning of each week’s tutorial (except for Wk2-5)
Return date: Within two weeks
Weighting: 15%
Length: Not applicable

Assignment details

Due to the lateness of the availability of the textbook, questions for week 2-5 inclusive will be taken up at the beginning of week 5. These will be marked out of 6. From week 6 questions will be taken up each week, they will only be fully marked (out of 3.5) on 4 random occasions and a mark out of 7 will be given based on the 2 best marks.

Assessment Criteria/Marking Guidelines

Students will be marked on their ability to formulate complete yet concise coverage if the issues in the questions.

Task 2: Mid semester examination 1 ½ hours (90 minutes)

Due date: To be held during week 9 (15 September) (previously wk 7) during the normal lecture time from 1.30 to 3pm in 40.131
Return date:
Weighting: 25
Length: Not applicable

Assignment details

This will comprise 30 multiple choice questions which will be based on materials covered in weeks 2-8. You will be provided with booklets for any workings/calculations.
**Task 3: Examination**

<table>
<thead>
<tr>
<th>Date:</th>
<th>University examination period</th>
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</thead>
<tbody>
<tr>
<td>Weighting:</td>
<td>60%</td>
</tr>
<tr>
<td>Length:</td>
<td>(3) hours (15) minutes</td>
</tr>
</tbody>
</table>

**Examination details**

Guidelines for students regarding the structure of the final examination will be given in lectures in Week 13, along with some practice examination questions which will be made available on the subject’s website. This is the first time this subject is being offered and therefore there are no past examination papers.
Submission Requirements

Submission

Tutorial work will only be accepted if handed in to the tutor at the beginning of each tutorial. Late submissions etc will not be accepted for any reason/s.

Acknowledgment/Plagiarism

Plagiarism is not acceptable and may result in the imposition of severe penalties. The University provides clear guidelines on its attitude towards plagiarism and how to avoid unintentional plagiarism in the Postgraduate University Calendar, located on the web at http://www.uow.edu.au/handbook/courserules/plagiarism.html

Students are advised to read these carefully. If any doubts remain as to what constitutes plagiarism, students should discuss the matter with the subject co-ordinator.

Disclaimer

The School attempts to ensure that the information herein is up to date at the time of production, however we reserve the right to amend without notice in response to changing circumstances.
Special Questions to be completed for tutorials

Special Question 1 (SQ 1)

Carry out a simple research exercise and find out the different zoning of land in the Illawarra Local Government Area: list briefly what use of the land each zoning allows and how you think this may affect 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.

In recent years, a weak economy and its related effects have weakened the commercial real estate market. One of real estate’s most attractive characteristics is its relatively steady income stream, and that could come under stress the longer the economy remains depressed. There have been rising vacancies, an increased focus on corporate cost-cutting and downward pressure on rents. That, combined with rising expenses, has been difficult for commercial real estate investors. This is explained in the online Lend Lease Real Estate Investments and Pricewaterhouse Cooper’s article, Emerging Trends in Real Estate. After reading this article, answer the following questions:

1. Which type of commercial real estate is riskiest in today’s economy?

2. Which type of commercial real estate is expected to deliver solid income-oriented returns?

3. According to investors, what effects does “cap rate compression” have on
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. 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.
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 articles, Real Estate Valuation in Business Plan Preparation, by Gary Chabot, and Assessing Your Assessment, by Robert Reilly. After reading the articles, 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?
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<th>Week/Date</th>
<th>Topic</th>
<th>Chapters</th>
<th>Tutorial Questions</th>
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<tbody>
<tr>
<td>1</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</td>
<td>Value and Real Estate Decisions; and The Effects of time and Risk on Value</td>
<td>2 &amp; 3</td>
<td>Chapt 1: 1, 6, 7,8 &amp; SQ 1</td>
</tr>
<tr>
<td>3</td>
<td>Sources and Limitations to Value: Legal Foundations and Market determinants</td>
<td>4 &amp; 5</td>
<td>Chapt2: 1, 2 3,5</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Chapt 3: 4, 7, 16, &amp; 17</td>
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<tr>
<td>4</td>
<td>Sources and Limitations to Value: Government policies and controls: aspects of ownership</td>
<td>6 &amp; 7</td>
<td>Chapt4: 2, 4, 5,6</td>
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<td></td>
<td></td>
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<td>Chapt 5: 1, 4, SQ2</td>
</tr>
<tr>
<td>5</td>
<td>Market valuation and appraisal: Using sales comparison, cost approaches and income approach</td>
<td>8 &amp; 9</td>
<td>Chapt6:2,3,4,5,</td>
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<td></td>
<td></td>
<td></td>
<td>Chapt7: 2, 3 and 4 for one site, 5</td>
</tr>
<tr>
<td>6</td>
<td>Financing Real Estate: Laws of contracts</td>
<td>10 &amp; 11</td>
<td>Chapt8: 1—7</td>
</tr>
<tr>
<td></td>
<td>Mortgage calculations</td>
<td></td>
<td>Chapt9: 1,3,5,6,8, 9,10,</td>
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<tr>
<td>Week/Date</td>
<td>Topic</td>
<td>Chapters</td>
<td>Tutorial Questions</td>
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<tr>
<td>7 1 Sept</td>
<td>Financing Real Estate: Residential Mortgage Types, Sources and Borrower Decisions, Commercial Mortgage Types, Sources and decisions</td>
<td>12, 13, 14, 15</td>
<td>Chapt10: 1, 3, 6, Chapt11: 1, 4, 7, 9, 11</td>
</tr>
<tr>
<td>8 8 Sept</td>
<td>Valuing investments and enhancing value through ownership/management</td>
<td>16 &amp; 17</td>
<td>Chapt 12: 3, 4, 5, 7, 8, Chapt 13: 5, 7, 8, 9</td>
</tr>
<tr>
<td>9 15 Sept</td>
<td>Mid session exam (change from wk 7)</td>
<td></td>
<td>Chapt14: 1, 5, 8, 9, Chapt15: 2, 3, 6, 7, 11</td>
</tr>
<tr>
<td>10 22 Sept</td>
<td>Acquisition and disposal of Real Estate Interests: Contracts re: Conveyancing and Brokerage</td>
<td>18, 19, 20</td>
<td>Chapt16: 1-5, 9, 11 Chapt17: 3, 4, 7, 8, 9</td>
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<td></td>
<td>RECESS</td>
<td></td>
<td></td>
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<tr>
<td>11 6 Oct</td>
<td>Leases and Income Tax</td>
<td>21 and 22</td>
<td>TO BE ADVISED</td>
</tr>
<tr>
<td>12 13 Oct</td>
<td>Risk Management in a Portfolio Context, Project development</td>
<td>23 and 24</td>
<td>TO BE ADVISED</td>
</tr>
</tbody>
</table>