RE 513/URBDP 554 Real Estate Finance and Investment

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Hours: Tuesday & Thursday 1.30-3.20pm

Simon Stevenson obtained his PhD in Finance from University College Dublin in 1997 and held faculty appointments in Ireland and the UK before joining the University of Washington in 2016 as the John and Rosalind Jacobi Family Professor of Real Estate. His primary research interests are in the fields of real estate capital markets & portfolio management; housing economics and international financial markets and has published over 80 papers in leading real estate, finance and management journals. Simon is co-editor of the Journal of Real Estate Portfolio Management (JREPM), the industry facing applied investment journal of the American Real Estate Society. In addition to various best paper awards, Simon was awarded the 2006 International Real Estate Society Achievement Award and the 2018 Nick Tyrrell Research Prize for innovative applied research in real estate investment. He is the current President of the American Real Estate Society.

Course Objectives

This course provides an introductory examination of real estate finance and investment. The class is designed to accommodate the interests of students from a variety of backgrounds, including those with no prior real estate exposure. Students are however encouraged to form study groups in order to discuss the issues covered throughout the courses regardless of their background.

Real estate is an unusual asset compared to asset classes such as stocks or bonds. It is distinct as it is both a financial/investment asset and a real asset. This means that while it is a major asset class, any real estate investor cannot ignore the fact that it is being used by its occupier as a key component in their business, i.e. it is a factor of production. The current environment and circumstances are clearly highlighting this. With respect to residential property, it is also a social asset.

It is therefore essential that any investor in real estate understands the underlying factors that drive the relevant sector, whether that be office, retail, residential, industrial, hotels or other specialist sectors. The real estate sector also differs in that properties require active management. This is very different than many asset classes. Real estate owners therefore will be considering the management of both individual assets and the management of real estate portfolios.

The course is structured so that some material is delivered in a more traditional lecture format and some in a workshop setting. The class will provide the foundations for your understanding of the finance and investment aspects of real estate. The material covered in this class will be expanded upon in subsequent graduate classes in real estate finance and investment. The class predominantly focuses upon real estate finance issues, such as mortgage markets, commercial real estate financing and development financing.
Learning Objectives
By the end of the course students should have accomplished the following four goals:

- Understand the key principals of finance and investment within a real estate context
- Improve real estate decision making abilities through the understanding of fundamental real estate financial modeling
- Understand the nature of real estate as an investment and real asset
- Appreciate the key differences between alternative real estate investment vehicles in terms of structure, financing alternatives and investment characteristics

Grading
The final grade is made up of three elements. The breakdown of the final grade is as follows;

<table>
<thead>
<tr>
<th>Component</th>
<th>Due</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Take Home Quiz 1</td>
<td>Friday February 5th</td>
<td>25%</td>
</tr>
<tr>
<td>Take Home Quiz 2</td>
<td>Friday February 26th</td>
<td>25%</td>
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<tr>
<td>Final Group Paper</td>
<td>Friday March 19th</td>
<td>50%</td>
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<tr>
<td>Total</td>
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<td>100%</td>
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Readings
The primary text cited is:

The following text may also be of use for specific topics
Geltner, Miller, Clayton & Eichholtz, (2013) Commercial Real Estate Analysis & Investments, 3rd edition, South Western

Additional readings will be provided for some specific topics. If you haven’t had much exposure to finance generally it may be useful to refer to an introductory finance text as well. I can provide you with details of a variety of books that cover the principles of finance.

I know that some of you have previously taken RE465 Introduction to Real Estate Finance, but some of you haven’t. That course focused more on issues such as the residential mortgage market. I have made available on Canvas all of the notes for that course. These may be useful as background reading for those of you who haven’t undertaken that course.
Course Outline

Introduction to Real Estate Investment & Finance
- Real Estate as an Investment Asset
- Principles of Risk & Return
- The Economic Framework of Real Estate Markets

Mortgage Markets and Overview of Interest Rates
- Mortgage Loan Structures and Determination of Mortgage Repayments
- Loan Amortization Patterns
- The Subprime Mortgage Market

Real Estate Investment Analysis
- Investment Worth versus Appraisal Value versus Transaction Prices
  - Linking the Capital and Space Markets
- Enhancing Value Through Active Management
  - Roles and Responsibilities of Portfolio, Asset & Property Portfolio Managers
  - Deprecation and Obsolescence
- Real Estate as a Real Asset

Capital Structure & Commercial Debt
- Capital Structure and Commercial Real Estate Debt
- Real Estate Funds and Geared Investment
- Real Estate Development Financing
- Commercial Mortgage Backed Securities
Adjustments to Syllabus

These are highly unusual and challenging times, and it is important to acknowledge that none of us signed up for this and that first and foremost we need to be there to support and help each other as much as possible. I appreciate that all of us are currently going through increased stress and anxiety concerning a wide array of factors. These are in addition to the immediate concerns about the Coronavirus and COVID19 and for the worry and concern we may have about friends and family, especially if we are living away from home.

Social distancing itself is a huge issue. While in-person interaction may be reduced during this time, it is important that you all maintain as much social interaction as possible. We have also physically lost some of the support network that a university campus provides. Please keep up to date with the online resources the university is providing. I also know that a number of you are seniors who are due to graduate this year. Please view me as an additional resource during this time. Feel free to reach out to me, I will help in any way I can.

None of us anticipated or were prepared for these classes to be delivered online. Everyone is having to get used to a very different learning environment. You didn’t enroll in an online program and I didn’t originally design this course for it to be delivered remotely. We are all having to get used to teaching and learning from home.

None of the above helps anxiety and I don’t want this course to add to any anxiety or worry you may be experiencing. Given the changed circumstances it would be ridiculous if I tried to deliver the exact same class as in the past. I have therefore adapted the syllabus significantly in order to take current events into account. There are simply some things we cannot do in the same way online.

a) Some assignments are no longer possible.

b) Some expectations are no longer reasonable.

c) Some objectives are no longer valuable or as important.

Let us instead focus on what is achievable in the circumstances. I will do everything I can to ensure that the course remains intellectually engaging as well as being practical and useful in an applied context. We all need to remain flexible to the situation and adjust to what is a rapidly changing environment. Nobody knows how the next few weeks are going to develop and how we may need to adapt.
Contact Details and Communication

Moving online means that communication will be more important than ever. This is going to be facilitated as follows:

a) Weekly email and canvas announcements detailing:
   i. The weeks schedule.
   ii. New lecture notes and recordings that have been uploaded to canvas. In order to avoid overload, I will be gradually putting these online throughout the quarter in clusters around topics.
   iii. Any readings. Given the closure of UW library facilities I will put all necessary readings on Canvas.

b) Virtual Office Hours
   i. From week 2 I will be available online every Wednesday 3.30-4.30pm.

c) I appreciate people that people will have questions throughout the week. Therefore, in addition to the office hours you can contact via these means:
   i. Email me either via Canvas or directly at ss243@uw.edu and I will get back to you as quickly as possible and at most within 24 hours.
   ii. I don’t normally give out my cell number, but these aren’t normal times. If you have a really short/quick question, please feel free to text me at 206-714-9053. I would though appreciate it if this number be reserved for texts.
   iii. I am also happy to arrange a time to speak directly to you either via Zoom or on the phone. In the first instance contact me via canvas, email or text to arrange a mutually convenient time.