

# BRITISH COLUMBIA INSTITUTE OF TECHNOLOGY

## COURSE OUTLINE

COURSE NAME Introduction to Real Estate Appraisal and Investment Analysis

COURSE NUMBER MKTG 4412

DATE January 1995

Prepared by Gary Bailey

Taught to Second Year

School Business

School Business

Program Marketing Management

Program Marketing Management

Date Prepared January 1995

Option Real Estate Studies

Term 4 Hrs/Wk 4 Credits

No. of Weeks 20 Total Hours 80

Instructor(s) Gary Bailey Office SE6-316 Local 6762

Office Hours As posted.

### PREREQUISITES

Economics of Real Estate Markets - MKTG 3312

Introduction to Real Estate Finance - MKTG 3313

### COURSE OBJECTIVES

This course introduces the application and use of formatted and narrative appraisal forms. It is based on developing related skills to real estate investment analysis and valuation in the context of property transactions and property markets. It also examines the characteristics of real property markets, examines a variety of methods for analyzing the income, cash flow and value potential of real property assets. In addition, the course considers various decision criteria and investment objectives in real estate investment and important deal structure considerations such as financing arrangements, ownership forms and tax strategies.

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## EVALUATION

Final Examination	<u>34</u>	%
Mid-Term	<u>22</u>	%
Project(s)/Assignment(s)	<u>20</u>	%
Quizzes	<u>14</u>	%
Participation	<u>10</u>	%

Absences without written medical excuse will result in a mark of 0. For an aegrotat mark to be awarded, students must complete not less than 60 percent of the course mark allocation.

1. Absences without a written medical excuse in excess of 10% of the scheduled lab and lecture hours will result in the student being prohibited from completing the course.
2. BCIT attendance requirements as per the BCIT calendar will be followed. A student who is more than five minutes late will be recorded as being absent.

Note that tests may be administered in either lecture or lab sessions. Absences without a medical doctor's certificate will result in a mark of zero. For an aegrotat mark to be awarded, students must satisfactorily complete at least 60% of the course mark allocation. Absences without written medical excuse, in excess of 10% of the scheduled lab and lecture hours will result in the student being prohibited from completing the course. Attendance will be taken.

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## REQUIRED TEXT(S) AND EQUIPMENT

Text: Real Estate Investment Analysis and Appraisal, by Dominique Anchor, George Gau and S.W. Hamilton, published by the Real Estate Division of the Faculty of Commerce and Business Administration, University of British Columbia.

Real Estate Agents' Pre-Licensing Course, Chapters 16, 18, 19 and 20.

Students are required to have available a silent, cordless, handheld financial calculator throughout the course work.

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## REFERENCE TEXTS AND RECOMMENDED EQUIPMENT

The course should have familiarity with microcomputers including the use of electronic spreadsheets (either Lotus 1-2-3 or Excel, etc.).

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## **COURSE SUMMARY**

MKTG 4412 is a required second year course for students in the Real Estate Studies option of the Marketing Management Technology. The course will focus on the following general areas:

### **REAL PROPERTY ASSETS AND MARKETS**

- Investment and Market Characteristics
- Attributes of Real Estate Investment
- Participants

### **INVESTMENT DECISION**

- Process and Feasibility Studies

### **PRICE SETTING**

- Appraisal Theory and Process
- Valuation and Appropriate Appraisal Method

### **MARKET COMPARISON APPROACH**

- Selection of Comparables
- Adjustment
- Gross Income Multipliers (G.I.M.)

### **COST METHOD APPROACH**

- Elements of Cost
- Improvements - Depreciation - Obsolescence

### **APPRAISAL FORM USE**

- MVA Residential Appraisal Form
- Uniform AIC Appraisal Form
- Narrative Appraisals

### **ANALYSIS OF INCOME AND EXPENSES**

- Statements and Forecast
- Estimating Potential Income and Expenses
- Ratio Analysis and Leverage

### **INCOME TAXATION**

- Characteristics
- Capital Cost Allowance (C.C.A.)
- Disposition of Assets

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## CASH FLOW ANALYSIS

- Operating Cash Flows and Income
- Pro Forma Statements
- Property Appreciation and Reversion

## TAX SHELTERING

- C.C.A. and Holding Period

## OWNERSHIP STRUCTURES

- Review Types and Implications

## RETURN MEASUREMENT

- Single Period Measures
- Discounted Cash Flows (D.C.F.)
- Internal Rate of Return (I.R.R.)

## INCOME METHOD OF VALUATION

- Income Capitalization
- Net Operating Income and Discount Rate

## MORTGAGE EQUITY ANALYSIS

- D.C.F. Valuation
- Band of Investment Analysis

## REAL ESTATE SYNDICATION

- Elements, Structure and Legal Form
- Risk - Returns - Roles

## CASES IN REAL ESTATE VALUATION AND INVESTMENT

## NARRATIVE OR FORMAT APPRAISAL PROJECT



# BCIT REAL ESTATE STUDIES

## JOINT PROJECT FOR MKTG 4330 AND 4412

TERM 4 - 1995

This project is to be carried out by groups of 4 students, with the names of the group members to be submitted to Gary or Dave by February 2, 1995. The groups will not be the same as the Directed Studies Groups.

### DESCRIPTION OF THE PROJECT

A substantial single family detached residence is to be selected for the project. It should not be a new "tract" house, but should be at least 5 years old to allow for some subjective reasoning and application of depreciation methods. The title must have at least two different charges registered, eg. mortgage, lien, easement, building scheme, etc. A property used for Directed Studies cannot be selected.

The project is to be selected with the guidance of the manager of a real estate firm. The property is to be either a current listing or a proposed listing. It is to be expected that the costs of the project, ie. land title search costs, etc., will be borne by the sponsoring company.

The property chosen will then be the subject of the respective reports required for the two courses. In addition, a copy of each report will be provided to the sponsoring firm.

THE REPORTS ARE DUE BY MAY 11, 1995.

### MKTG 4412 REPORT

1. The project may be either
  - a) a narrative appraisal of about 20 pages plus supporting data, charts and pictures, or
  - b) a completed formatted demonstration report form (Appraisal Institute of Canada) with attachments and support data.
2. Property is to be at highest and best use and is appraised as of the present date.
3. At least two methods of appraisal must be used to determine value.
4. A Property Condition Disclosure Statement (PCDS) is to be included as an attachment and checked against your visual inspection. Any hidden damage or discreptions should be considered and adjustments made in the report, if necessary.
5. Dollar adjustments made in the comparative analysis should have the source identified and any judgement items should be supported with your reasoning. Appraisers must

## BCIT REAL ESTATE STUDIES

convince the examiner or client that their approaches and conclusions are made on a sound basis

6. The report is worth 20% of the course mark.

### MARKETING 4330 REPORT

1. The submitted report is to include the following, as a minimum:

- copy of current Certificate of Title (computer printout)
- copy of previous title
- copy of document which created the current title (eg. transfer, etc.)
- copy of all pages of all charges on title (maximum of three charges)
- copy of surveyor's plan of property, with easements, rights of way, etc., indicated
- photograph of home
- Contract of Purchase and Sale, which represents YOUR best estimate as to how the present owners obtained the property (do NOT refer to the actual Contract, which may be available). Use accurate information, where possible.
- a MLS listing contract (REGBV or FVREB) with associated data sheets (including all required measurements) which YOU compose, not a copy of any existing contract or listing, suitable for signing by the vendors, and submission to the local MLS system

- copy of PCDS, if available.

2. Your report will discuss:

- status of title, legal description, street address
- relevant details of all documents and charges, eg. can mortgage be assumed, prepayment penalties, liens?, effects upon property's value/saleability, etc.
- description of type of home, with exterior features, etc.
- complete details of how you think current owners purchased the property
- assessment information
- municipal tax information for 1993, including tax rates, (school, general..) etc.
- potential commission for all parties to the probable sale, using commission structure provided by your manager.

3. Your research must be original, ie. visit the Land Titles Office, BC Assessment Authority, Municipal tax authority, etc. for all your data. Provide sources for all your information.

### DO NOT RELY UPON THE VANDAT COMPUTER SYSTEM FOR YOUR DATA!

4. Keep in mind your obligations to your principal and to third parties, as a professional.

5. The report is worth 25% of the course mark.