

BRITISH COLUMBIA INSTITUTE OF TECHNOLOGY

COURSE OUTLINE

COURSE NAME Introduction to Real Estate Appraisal and Investment Analysis

COURSE NUMBER MKTG 412 4412 | DATE January 1994

Prepared by Gary Bailey | Taught to Second Year

School Business | School Business

Program Marketing Management | Program Marketing Management

Date Prepared January 1994 | 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 312

Introduction to Real Estate Analysis - MKTG 313

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.

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.

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, Chapter 16, 18, 19 and 20.

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

REFERENCE TEXTS AND RECOMMENDED EQUIPMENT

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

COURSE SUMMARY

Marketing 412 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

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 APPRAISAL OR FEASIBILITY STUDY PROJECT

INTRODUCTION TO REAL ESTATE INVESTMENT ANALYSIS AND APPRAISAL
MARKETING 412
PROJECT
SPRING 1994

1. The report is worth 20% of the course mark. It is to be typed and submitted by May 12, 1994. The project should be completed in groups of three — but not the same as your directed studies group. Group names are to be in by February 3, 1994.
2. It is recommended that the report be 20 pages maximum plus support data, charts, and pictures.
3. A property used for directed studies of another course cannot be selected.

THE PROJECT MAY BE A FEASIBILITY STUDY OR A NARRATIVE APPRAISAL.

Feasibility Study

1. Select a site or property which you feel is not at its highest and best use or is underdeveloped.
2. Prepare a proposal for the development or upgrading of this property.
3. The project may be multi-residential, commercial, retail, industrial or any combination.
4. The analysis is to be realistic, therefore you are to determine as much as possible, the actual market conditions, costs, etc.
5. Discounted cash flow techniques and sensitivity analysis should be employed.
A computer spreadsheet program may be used.
6. All market data, demand projections, analysis, cost figures, etc., must be supported. Primary research does not have to be extensive and secondary research should be identified.
7. NOT REQUIRED: Title search or architect/engineer drawings.
8. In recommending any rezoning proposals, provide your reasons for expecting city or municipal cooperation.
9. Address your report to an experienced real estate investor, who typically has a five year holding period.

Narrative Appraisal

1. Property is at highest and best use and is appraised as of current date.
2. The format for the Appraisal Institute of Canada demonstration report should be used as a guide.
3. The project can be a substantial single family residence or a smaller investment property.
4. At least two methods of appraisal must be used to determine value.
5. The subject of property should not be a new "track house" in a subdivision, to allow for some subjective reasoning.