

Real Estate Finance

FINM 3406

Lecturers:

- Mr Paul Walker – Email: p.walker@business.uq.edu.au
- Guest Lecturers

Course Coordinator:

- Dr Ihtisham Malik – Email: i.malik@business.uq.edu.au

Lecture is in two parts

- Introduction to Course Outline and overview of resources, learning activities and assessment.
- Introduction to some general real estate principles and the concept of Real Estate as an Asset Class

Part 1 Course Overview

- Course Coordinator – Ihtisham Malik
- Course Lecturer – Paul Walker
- Tutors
 - Georgia Whiting
 - Rasheda Huda
 - Syed Kazmi
 - Tao Wei
 - ZhengAi He

Course Aims and Objectives



Aims of FINM3406 – Real Estate Finance

- This course aims to provide students a detailed understanding of real estate finance and investment and the role of property as an asset class.
- Students will learn how to critically evaluate the role that property plays as an investment vehicle and to analyse investment and financing opportunities.
- The course will examine the differing roles that direct and indirect property investment has and the mechanisms for financing property transactions.

Course Aims and Objectives



Learning Objectives of FINM3406 – Real Estate Finance

- After successfully completing this course you should be able to:
 - Understand factors that impact real estate markets
 - Analyse financial data in order to assess performance in real estate markets
 - Explain and evaluate risks associated with real estate
 - Evaluate techniques for portfolio management in real estate

Resources and Support



- Learning Resources on Blackboard will include weekly lecture slides
 - Resources include readings and relevant reference material/reports
 - You will be advised which reading are required for each lecture/tutorial
 - Set text – will arrange for relevant chapters of several text-books to be made available as weekly readings in Learning Resources. Link to UQ Library E-Book on the ECP
 - Weekly Tutorial Exercises will be made available progressively
- Lecture recordings
- Discussion Forum on Blackboard
- UQ Student Services

Learning Activities



- 13 x 2-hour lectures
 - Plans is to include two guest lectures from Industry during semester – exact timing/date TBC
- 12 x 1-hour tutorials
 - Activities will be set weekly for each tutorial to be attempted beforehand and discussed during tutorial
 - Group assignment to be formed from groups in same tutorial session so that report can be discussed, and groups supported during second half of semester

Learning Activities



TOPICS COVERED INCLUDE:

- Real Estate as an Asset Class
- Real Estate Ownership Structures, Acquisition and Disposal
- Real Estate Appraisal (Valuation)
- Real Estate Development
- Real Estate Financial Modelling
- Debt & Equity Financing and Mortgages
- Corporate Real Estate
- Sustainable Real Estate Investment

Assessment



Assessment Task	Due Date	Weighting	Learning Objectives
<i>Exam - On Campus Mid Semester Outside Scheduled Class</i> (Multiple choice only)	See ECP for details	20%	1, 2, 4
<i>Report</i> Group Report - Evaluation of Real Estate Project	See ECP for details	40% Group	1, 2, 3, 4
<i>End of Semester Exam - On Campus during Exam Period</i>	Examination Period	40%	1, 2, 3, 4

Part 2 Real Estate as an Asset Class

- What is real estate – bundle of rights theory
- Conceptual frameworks for property ownership (socialist/communist/capitalist – liberal democratic ideology)
- Purpose of built form – historic, current and future and how this impacts investment decisions
- Real estate market characteristics
- Comparison with other asset classes

Scale of Australian Real Estate Sector

Residential Real Estate Underpins Australia's Wealth

-  Residential Real Estate
\$7.6 Trillion
 -  Australian Superannuation
\$2.6 Trillion
 -  Australian Listed Stocks
\$1.8 Trillion
 -  Commercial Real Estate
\$0.972 Trillion
- As at the end of May 2018



10.0 million
Number of dwellings



\$1.75 trillion
Outstanding mortgage debt



52.1%
Household wealth held in housing



465,788
Total sales p.a.



\$299.1 billion
Gross value of sales p.a.

Source: CoreLogic, APRA, RBA, ASX

What is Real Estate?

- Tangible Asset (physical)
- When viewed as a tangible real estate includes:
 - Land (*Cuius est solum, eius est usque ad coelum et ad inferos*)
 - Improvements on the land (appurtenances)
 - Does not include removable items (plant & equipment)
- Can it be Intangible (nonphysical)?
 - Contractual rights (ie leases, mortgages, options etc) - NO
 - Easements & Profit-a-prendre - YES
- Property Rights vs Contractual Rights
 - Privity of Contract vs Rights against the world

What is Real Estate?

- Bundle of Rights Theory
 - Ownership (private right enforceable against strangers)
 - Possession (possession is 9/10 of the law)
 - Control (what is built and what takes place)
 - Enjoyment (can use as see fit)
 - Exclusion (no trespassing)
 - Disposal (sale, lease or by will) & Destruction
- These rights are not unconstrained
 - Government controls (ie Planning, Environment, Heritage and Property Laws, Compulsory Acquisition)
 - Common law (ie nuisance)
 - Self imposed (Contracts – restrictive covenants, leases, mortgages, liens, caveats)

Conceptual Frameworks for Ownership

- Capitalist perspective
 - Private ownership of property is an individual right
 - Liberal democratic society *grundnorm* (freedom and liberty)
- Socialist perspective
 - State controls ownership and use of real estate
 - State allocates land based upon society needs
 - Private ownership limited – no right to buy or sell
- Communist perspective
 - State owns all real estate. Private property is abolished
 - State determines how real estate is used and allocated, with the goal of equal distribution of resources and wealth
 - Hybrid models exist

Purpose of built form – Why do we need property?

- Enclosure/delimitation of space
- Climate barrier/modifier
- Protection and privacy

Buildings create environmental conditions indoors which are more stable and predictable than those outdoors. In so doing they enable activities to take place that otherwise would not.

A building like a company, should help us to do more things and to make things more abundantly better

Purpose of built form – What do we need/use property for?

- Shelter
- Security
- Business base
- Corporate Statement
- Architectural and/or historical/cultural
- Investment
- Infrastructure

- Relationship with people and technology

What do we need/use property for?



[Huge flaw with Apple's new \\$6.3b headquarters - News.com.au](http://www.news.com.au/.../apples...new.../news.../c224e2c165294da1b19b79930bd1549d)

www.news.com.au/.../apples...new.../news.../c224e2c165294da1b19b79930bd1549d

Apple's incredible **new** spaceship campus has one massive flaw. **APPLE'S** futuristic ring-shaped **headquarters** are the fifth-most expensive building in the world.

Characteristics of Real Estate Markets

- Heterogeneous Products
 - Real Property is unique
- Immobile Products
 - Real estate exists in a defined spatial context
 - Buildings can be relocated but land is immovable
- Localised Market
 - Markets differ from region to region
- Segmented Market
 - Segmentation can be based on use, size/scale and location
- Private negotiations with high transaction costs
 - Time consuming, costly and complex

Property as an Asset Class

Ownership Objective

Corporate Property

- Business Base
- Corporate Statement
- Enabler of Business
 - Short and Long-term property solutions
- Infrastructure Facility

Investment Property

- Return on Investment
- Diversification by
 - Location
 - Sector
 - Size
- Direct and Indirect
 - AREITS
 - Syndicates

Property as an Asset Class

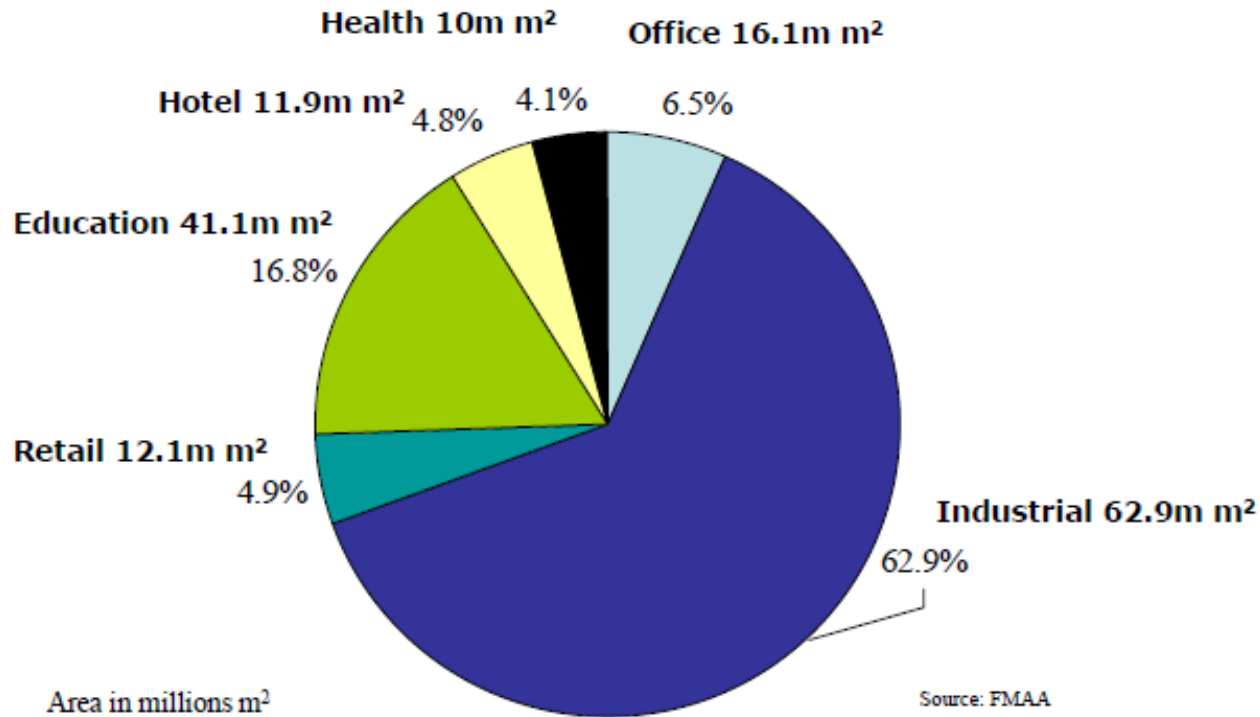


Property sectors

- Residential
 - Houses, apartments, affordable housing, retirement
- Industrial
 - Warehouses, factories, specialist plant (ie abattoirs, refineries, mills etc)
- Commercial
 - CBD vs fringe vs various grade of accommodation
- Retail
 - Regional, sub-regional, neighbourhood shopping centres, bulky goods
- Leisure
 - Hotel, resorts, theme parks
- Agricultural
 - Farming, mining
- Infrastructure
 - Roads, tunnels, airports, seaports, bridges

Property as an Asset Class

Comparative size of corporate property sectors



Property as an Asset Class



Scope of Real Property

- Public/Private
- Owner occupied/investment
- Multi purpose/single use
- Large scale/small scale

Public

- Infrastructure
 - Roads, rail, ports, dams
- Services
 - Health, defence, law, education, recreation

Private

- Corporate Real Estate
- Investment Property

Property as an Asset Class



Why are decisions about property generally more complex and time consuming compared to decisions about other asset classes?

- Size – large capital requirements
- Regulatory environment – high degree of regulatory control and compliance
- Uniqueness
- Time line – long time from inception to use/monetisation
- Property is a wasting asset – depreciation and obsolescence
- Limited liquidity
- Quality of management impacts value