

# **University of Washington Foster School of Business**

## **FIN 579 I/J: Intro to Real Estate Finance and Investment**

### **Winter 2024**

Professor: Tracey Seslen

Office: PCAR 564

Office Hours: Wednesdays 12:30-1:30pm (by appointment on Zoom and walk-in in person). I am also often available after class Tuesdays and Thursdays, by appointment.

Email: [seslen@uw.edu](mailto:seslen@uw.edu).

Class Time: TTh 10:30-12:20. Classes will be held in-person except 1) in the case of instructor illness or 2) when expressly directed otherwise by the University.

Class Website: <http://canvas.uw.edu>

Grader: Xuan Xie (Finance Ph.D. Student) [xx0901@uw.edu](mailto:xx0901@uw.edu)

#### **Description**

The goal of this course is to equip students with a toolbox of fundamental concepts and analytical techniques for the purpose of making prudent real estate investment decisions. The course will be built upon the modern corporate finance curriculum; however, a key objective of the course is to impart understanding of the factors that distinguish real estate from conventional securities investments and the implications of those differences. By the end of the quarter, students will learn various real estate valuation techniques and the circumstances under which they are best used; how to tailor a property's lease structure to best fit the property and specific tenant type; how to choose the best loan for a property; how to set up an equity partnership, and how to identify and better control risk in a property investment. Learning will take place via lectures, problem sets, case discussions, in-class exercises (i.e. Huntington Flats), class visits from industry experts, and a group project in which students carry out a detailed financial analysis of an actual for-sale property in the Puget Sound area.

#### **Prerequisites**

MBA Core Finance or equivalent. Individuals should have a solid understanding of cash flow discounting and present value mathematics. In this course, the students will develop an understanding of such techniques as applied to real estate issues. For those of you needing a PV math or discounting refresher, please work through the "PV Math Pre-Test" document in Module Zero of the class Canvas page. Step-by-step video solutions can be found in the same place.

## **Required Course Materials**

- Harvard Case Coursepack. Downloadable from the Harvard Business Publishing website for \$9.50. [LINK](#) (Registration required)
- Excel/Google Sheets. Financial calculators or graphing calculators with financial functions may be used for doing quick calculations in class, but there is an expectation that students become proficient in using the financial functions of Excel, as it is used heavily in industry and will be needed for the exam.

## **Optional textbook**

- Brueggeman and Fisher: Real Estate Finance and Investments. The 14<sup>th</sup> through 17<sup>th</sup> editions, domestic and international, are all about the same when it comes to content covered in the class, so I recommend getting the one that is the cheapest and easiest to acquire. The main purpose of the book will be as a means of filling in any gaps from the lectures, slides, or personal notes. Reading of the book chapters should *not* be used as a first approach in studying for exams.

## **Grading Policy**

Each student's grade is made up of the following categories:

• <b>“Introduce Yourself”</b>	<b>1%</b>
• <b>PSets, Excel work-through, Speaker writeups</b>	<b>10%</b>
• <b>Huntington Flats Case (4 parts)</b>	<b>8%</b>
• <b>Pinckney Street and Wildcat Equity Partners Cases</b>	<b>20%</b>
• <b>Negotiation Game (4% attendance + 2% performance)</b>	<b>6%</b>
• <b>Exam</b>	<b>20%</b>
• <b>Final Project</b>	
○ <b>Timely submission of preliminaries (2 x 1%)</b>	<b>2%</b>
○ <b>Final Report</b>	<b>23%</b>
• <b>Peer Evaluation</b>	
( <b>1% for submission + 2% for assessment</b> )	<b>3%</b>
• <b>Mandatory Article Postings/Commentary</b>	<b>2%</b>
• <b>Class Participation</b>	<b>5%</b>
<b>Total</b>	<b>100%</b>

Disputes regarding grades must be brought to my attention within one week of grades being released. Final course grades will follow the Foster School's recommendations on MBA elective GPA targeting (~3.5 median grade).

## **Problem Sets**

Problem sets will be graded on a full-credit/no-credit basis and are to be turned into Canvas in Excel, Word, or Jpeg format. To receive full credit for a problem set, you should have made a reasonable attempt to solve ***every problem*** assigned. Each student must turn in their own paper, although students may work together to solve the problems. Students may turn in problem sets up to 48 hours late for 50% credit. Beyond 48 hours, no credit will be awarded. Solutions to problem sets will be posted on Canvas around 72 hours after the problem set is due and links to video explanations may be posted for particularly challenging problems. Computational questions on the exam will be similar to the types of problems found in the problem sets, with extra consideration for time constraints. ***So please note: It is better to turn in a complete problem set late, than an incomplete one on-time, both from a grading as well as a knowledge acquisition perspective.***

## **Excel Work-Through**

Given the importance of building cash flow/valuation models in Excel, you will have one assignment in which you are asked to watch a set of videos and copy the two Excel sheets that I create in those videos. This assignment will be worth two (2) percent of your grade and the same penalties will apply for late submissions as for problem sets. See the assignments section of Canvas for video links and other instructions.

## **Guest Speakers**

To add an additional element of real world color to the class, we will be hearing from a couple of guest lecturers. While attendance will not be taken, you will be required to turn in a *very brief* writing assignment at the end of the lecture designed to indicate active listening. Generally speaking, everyone who attends the lecture and submits the required writeup will receive full credit, which counts for four (4) percent of your total course grade. If you expect to be absent, you must let me know in advance to be eligible for “make-up” credit.

## **Huntington Flats In-Class Case**

Throughout the quarter, you will have the opportunity to solidify your understanding of basic valuation and pro-forma-building within a real-world context through a case called “Huntington Flats”. All parts of the case will be done in-class, and you will be free to consult with me or with your fellow students to complete the exercises. There is an expectation that all students will attend class on those days, and remain in class, working productively, until class is over OR you have successfully (correctly) completed the exercise. Students will submit their work to Canvas (either an Excel file/Google sheet or a jpeg of handwritten work) when it is complete or when class is over. If you expect to be absent on a “Huntington Flats” day, you may do the work at home and receive full credit, but you MUST notify me in advance, and the work MUST be submitted within 24 hours of the class in which it was assigned.

## **Other Cases**

There will be two “traditional” Harvard Business School cases which we will discuss in class. The Pinckney Street and Wildcat Equity Partners cases must be done in teams of 4-5, depending on enrollment. All deliverable components for the Pinckney street and Wildcat cases are to be turned into Canvas. Case assignment questions are posted on Canvas. No late cases will be accepted.

The cases will be graded out of 100 points. Grading will be based upon accuracy of calculations, depth of analysis, conciseness, and conforming to a “professional” level of report formatting – pages should be numbered, graphs and tables properly labeled, and the text free of typographical and grammatical errors. If an early mistake in a calculation propagates others down the line, teams will only be penalized for the first mistake in the sequence.

The Pinckney Street and Wildcat cases may be purchased and downloaded from the Harvard Business Case Library, at this [LINK](#) (Registration required).

For the in-class negotiation game, teams will be re-assigned by me according to students’ submitted role preferences and the anticipated workloads for each of the parties involved in the simulation. Role-specific negotiation game materials will be distributed electronically about a week in advance of the game being played out in the classroom.

## **Exam**

There will be one take-home exam during the quarter. The exam will be open for about 5.5 days, and you can complete it in as many sittings as needed. You are permitted to use any “official” course materials – all videos, and any documents or text posted to Canvas. You may not use the general internet (i.e. Google, Wikipedia, Investopedia, etc.), AI tools, nor hard-copy reference materials, nor discuss any exam content with anyone other than the professor once the exam has gone live on Canvas.

**Study Strategies:** Please review the slides, the notes you’ve taken on them, in-class math examples, homework problems/solutions, non-slide class handouts and any sample exam problems posted in the exam prep section of Canvas. Once again, the main purpose of the book is as a means of filling in any gaps in knowledge regarding material discussed in class. Reading of the book chapters should *not* be used as a first approach in studying, and anything found in the book that I haven’t discussed in class or posted on Canvas *will not* be covered on the exam.

## **Final Project**

The culminating learning experience of this class will be a project requiring you to seek out an actual real estate investment opportunity in the Puget Sound area, evaluate that opportunity, and present your findings in a 12-15-page report (excluding graphics). Students should plan to work in their 5-person Pinckney/Wildcat case teams on this assignment. Further details on acceptable property types, sizes, deliverables, etc. will be discussed later in the quarter.

## **Peer Evaluation**

Given the emphasis on group work in this class, you will be asked to assess your own and your group members' contributions to the Pinckney Street and Wildcat cases, and to the final project. It is not expected that all group members in all situations will contribute exactly equally, but there is an expectation that over the course of the quarter, everyone roughly "pulls their weight" and avoids productivity-killing drama. Situations in which there is a consistent pattern of reporting of "slacking off" or not being a "team player" will result in a deduction of points from the performance component of the peer evaluation grade. Students will receive 1 point for submitting the evaluation and up to 2 points for an overall positive assessment of their contributions throughout the quarter. Finally, since this comes at the very end of the quarter, it's easy for students to forget to turn it in amidst the flurry of other assignments. I encourage you to set a calendar reminder *now* – these are nearly "free" points for the quarter.

## **Article Postings/Commentary (Discussion Board)**

In an effort to keep you connected with the real world of real estate and create more opportunities to integrate concepts from the class with real world happenings, you will be asked to post two (2) real estate-related article links to the appropriate discussion board thread with a few sentences of commentary, and comment on at least two (2) articles posted by classmates by the end of the quarter. You may post/comment on MORE than two to beef up your classroom participation, which is discussed under the heading below.

Please check to see what has already been posted so that you're not posting duplicates.

Articles may be of a local, state, or national scope, but they should focus either on income-producing real estate (office, industrial, retail, apartment or single family rental housing, etc.) OR mortgage markets. Local and state-level articles do NOT need to be Seattle/WA-focused

### **Possible Sources**

- [A list of Real Estate online "magazines"](#)
- NY Times, WSJ, and other national news sources. Available through UW libraries
- Seattle-centric news publications:
  - [Seattle Times](#), browsable for free with your NetID
  - [Puget Sound Business Journal](#) (using yourNetID). Note: Mark Stiles is the head RE writer for PSBJ.

## **Classroom Participation/Attendance**

Lectures will take place twice a week and attendance is mandatory. You should arrive on time and not leave until class has been dismissed. You should also return at the designated time from any breaks. Participation grades will be based on a combination of your participation self-evaluation and my observations in class. Please see the participation self-evaluation assignment on Canvas for further details on criteria for scoring.

## **Religious Accommodation**

Washington state law requires that UW develop a policy for accommodation of student absences or significant hardship due to reasons of faith or conscience, or for organized religious activities. The UW's policy, including more information about how to request an accommodation, is available at Faculty Syllabus Guidelines and Resources. Accommodations must be requested within the first two weeks of this course using the Religious Accommodations Request form available at <https://registrar.washington.edu/students/religious-accommodations-request/>.

## **Academic Integrity**

By being a student in this class, you acknowledge that you are a member of a learning community in the Foster School of Business that is committed to the highest academic standards. As a member of this community, you agree to uphold the fundamental standards of honesty, respect, and integrity, and accept the responsibility to encourage others to adhere to these standards.

The use of unauthorized material, plagiarism, communicating with fellow students during an examination, attempting to benefit from the work of another student, allowing another student to benefit from one's own work, and similar behavior that defeats the intent of an examination or other class work is unacceptable.

The use of ChatGPT or other AI tools (including, but not limited to, Bard, Claude, etc.) to complete any class assignments or exams is strictly prohibited.

Where a violation has occurred, the student will receive a zero on the assignment/exam.

Where a violation has occurred, the student will receive a zero on the assignment/exam. Finally, students are strictly prohibited from sharing *any* content from *any* assignment (including but not limited to problem sets, case deliverables and exams, and solutions thereof) with any website or app (including but not limited to Discord, Chegg, Course Hero, and Snapchat) or any other course content repository (virtual OR physical) that is not explicitly approved by the instructor. This prohibition applies both during the quarter that you are taking this course and any time after the course ends. Violations will be referred to the appropriate disciplinary authorities.

Tentative course schedule, associated book chapters (if any), and assignments due				
Class #	Date	Topic	Chapter	Due
1	1/4	Introduction to the course	3	
2	1/9	Valuation conventions and techniques	10	
3	1/11	Valuation conventions and techniques (cont'd); Intro to Huntington Flats ( <b>Exercise due at the end of class</b> )		HW #1; HF Part 1; "Introduce yourself"
4	1/16	Pro-Forma Analysis	none	
5	1/18	Huntington Flats Part 2 ( <b>Exercise due at the end of class</b> )		HW #2; HF Part 2
6	1/23	Introduction to Fixed-Rate Mortgages	4	
7	1/25	Introduction to Fixed-Rate Mortgages (cont'd); Intro to the Final Project		Article Link & Commentary #1 (Discussion Board)
8	1/30	<b>Pinckney St Case Discussion</b>		1st Case Writeup
9	2/1	Leases	9, 13	HW #3
10	2/6	Financial Leverage Part 1: The Basics and Building a Levered Proforma	12	Final Project Proposal
11	2/8	Financial Leverage Part 2: Advanced Debt Structuring		Levered Proforma Walkthrough Submission
12	2/13	Risk; Huntington Flats Part 3 ( <b>Exercise due at the end of class</b> )		HF Part 3
	2/14	(Optional, for participation) 9th UW Commercial Real Estate Symposium 9-11:45 in Peek Forum		
13	2/15	Equity Partnerships	18	Article Link & Commentary #2 (Discussion Board)
	2/16	(Friday) Zoom Review Session for <b>EXAM</b> ; time TBD. Exam will go live afterwards and be due on 2/22		
14	2/20	<b>NO CLASS</b> (Work time for Exam, Wildcat, or Final Project)		
15	2/22	Intro to the Real Property Negotiation Game; Huntington Flats Part 4 ( <b>Exercise due at the end of class</b> )		HF Part 4
16	2/27	<b>Wildcat Equity Partners Case Discussion</b>		2nd Case Writeup
17	2/29	<b>Guest Speaker #1</b>		Guest Speaker writeup #1; Final Project Draft Components
18	3/5	Real Property Negotiation Game; Negotiation Game Debrief		Deal Sheet due at approximately 11:45am
19	3/7	<b>Guest Speaker #2</b> ; Wrap-Up and Evals		Participation Self-Assessment
	3/13	<b>(Wed) Final Project Report due on Canvas at 11:59pm. Peer Review due on Canvas ALSO at 11:59pm</b>		Final Project Report; Peer Review

Please bring your laptop to class on 1/11, 1/118, 2/6, 2/13, 2/22, and 3/5