

MSRE 6152-U90
Financial Management
Fall, 2019

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Class Time: Wednesday 5:30 pm -8:15 pm
Texts: Brigham, E. F., and M.C. Ehrhardt, *Financial Management: Theory & Practice*, 14th Ed.
Geltner, D.M., N.G. Miller, J. Clayton, and P. Eichholtz, *Commercial Real Estate Analysis & Investments*, 3rd Edition.

Course Description

This course is a variant of the traditional introductory financial management course. It is specifically designed for students in the MS in Real Estate program. The primary goal of the course is for students to understand the theory and practice of financial management and its application to real estate investment, real estate development, and real estate finance. Topics covered will include time value of money, risk and return, asset management, asset valuation, the cost of capital and capital budgeting, project finance, financial options and real options. Special emphasis will be placed on the relationship between the general financial markets and the financing of real estate.

As shown in the reading list at the end of this syllabus, the material in this course is divided into three major areas: finance fundamentals, principals of financial management, and advanced topics. Within each of these divisions the topics will be addressed in two ways. First, the topic will be covered as in a traditional financial management course. This will typically involve developing the basic financial theory from a set of first principals, and then applying it in a traditional investment or corporate finance setting. Second, after having established the basic concept and traditional usage, topic will then be examined in the context of real estate. In many cases the basic financial management theories or concepts will have to be modified or extended because of either unique attributes of real estate as an asset or because of unique institutional attributes of real estate markets.

A word of caution to MBA students. Although MSRE 6152 is a financial management class, and it is frequently cross-listed with MBAD 6152, this section is specifically designed to prepare students for the real estate finance sequence in the MS Real Estate program. It is not designed to prepare students for the next courses in the MBA finance concentration. While we will cover many of the same topics as MBAD 6152, we will emphasize areas of finance that are typically not relevant to non-real estate companies. If you intend to take additional MBA finance courses, you will most likely benefit from taking MBAD 6152 instead of this course.

Course Objectives

- To understand the basic relationships between risk and return in the financial markets, and how that affects real estate and real estate investing.
- To master time value of money and how it applies to real estate.
- To develop an understanding of how financial markets price capital assets such as real estate.
- To develop an understanding of the estimation of cash flows and the estimation of appreciate discount rates.
- To develop an understating of how firms raise capital, the cost of that capital, and how firms allocate capital to projects.
- To develop an understanding of project valuation and project finance.
- To understand how firms maximize the value of the portfolio of projects that they own.

- To understand financial options, real options, and how they affect the valuation of real estate projects.

About this Syllabus

This syllabus is our class contract. It clearly states the requirements this class places on both you and me, and I will not change the conditions of this contract during the class. This is done to insure fairness and consistency among all members of the class. By staying in this class you accept the conditions of this contract and agree not to ask me for exceptions to the syllabus.

Texts

This course combines traditional financial management with real estate finance. Because of this we will use two books during the class. The first book is *Financial Management: Theory & Practice*, 14th Edition by Brigham and Ehrhardt. This is a standard financial management book, and will be the primary book we use for the course. It is *required* that you purchase this book.

The second book we will use is *Commercial Real Estate Analysis & Investment*, 3rd Edition by Geltner, Miller, Clayton, and Eichholz. While I listed this as optional with the bookstore, the reality is that you will use this book in several other courses, including MSRE 6158 and MSRE 6160, so I will assume that you have a copy available to you. If you do not, you really should go ahead and purchase it.

Office Hours

My office hours for this course are from 2:30-4:00 on Wednesday. I will also gladly make other appointments as necessary. I strongly encourage you to take advantage of my office hours. I believe that any student that is taking this class has the ability to learn this material and to do well in this class. If you are having difficulty, I want to help you determine both what the problem is and what needs to be done to correct it. I also want to encourage you to stop in over the first part of the semester to introduce yourself. This helps me to learn your name and determine what your interests are, and it gives you a chance to ask any questions you may have about the course. Also note that we will have a Graduate Teaching Assistant that will help with this course. His name is Sean Brunson and his office is the Friday building. I will post his office hours once we have determined them.

Conduct and Academic Honesty Policy

All students in this class must comply at all times with University policies on academic integrity. Any student violating these policies, as defined in the Graduate Catalog, will be referred to the University administration for disciplinary action. Sanctions for academic dishonesty include, but are not limited to, receipt of an F in this course, suspension, or expulsion from the University.

I take academic honesty very seriously, and I expect you to. On tests and class assignments you may not benefit from any work not produced by your own intellect.

Grading Policies

There will be four graded problem sets, two mid-terms, and one cumulative final exam. The problem sets will each count for 5% of your grade, the two mid-terms will count for 25% of your grade and the final will count for 30% of your grade.

Grading Scale

The lower bounds for final grades of A, B, C will be no higher than 90, 80, and 70 percent of the total available points, respectively. Grades will be curved if necessary. There is, of course, no lower bound for the grade of U.

Exam Format

The exams will be a mixture of short answer, quantitative and essay questions.

Problem Sets

There will be four graded problem sets assigned during the class. You may elect to work in groups of up to three people for these sets. If you do work in a group, the group will turn in a single set of answers and will

be graded as a single group. Note that you do not have to work in a group – it is completely okay to work by yourself if you want to do so. Also note that you do not have to work in the same group for different problem sets.

The problem sets are due at the beginning of class on the dates indicated. If you turn a problem set in late, you will lose 20% of the grade for each day late. For example, if you turn a problem set in one day late the highest possible grade would be 80%, two days late 60%, etc.

Missed Tests

The dates for the tests are firm. Make up exams will not be administered under any circumstances. In the event of absence from an exam due to a University-excused absence, greater weight will be assigned to the final exam. In the event of a missed test, this will count as the exam that you are replacing with your final exam grade. No make-up provision is available for tests missed to oversleeping, lack of preparation, vacation, social events, traffic, etc.

Calculators

You will need a **financial** calculator for this class. You will not be allowed to use present value tables in this class. I recommend using the HP 12-C, or HP-19B II (Texas Instruments, Sharp and Casio also make inexpensive calculators which are equivalent.) You will be required to solve for yields and internal rates of return, and financial calculators greatly simplify this task. Note that it is your responsibility to know how your calculator works. I will not spend class time explaining how to use a calculator.

You should not try to use a scientific calculator for this class. They typically do not have built-in the ability to solve some of the problems you will have to solve – while you can do it by hand, it will put you at a severe disadvantage relative to your peers if you try to use a scientific calculator.

Note that you will **not** be allowed to use a cell-phone based app, a tablet, or a computer during exams. While I realize there are some nice financial calculator apps for iPhone and Android, you will not be able to use a phone during an exam.

Electronic Communications

All students at UNC-Charlotte are assigned a student email account, which is the official means of communication between the University and the student. Although I will certainly respond to you if you use another email system, you should be aware that any class-wide announcements that I send through email will be sent to your UNC-Charlotte email account.

I will also maintain a Canvas site for this class. On this site I will post class materials, including PowerPoint slides, problem sets, and other miscellaneous materials.

In the event of inclement weather, please check my Canvas site for information on whether class will be held or not. If the University shuts down, then we will too. Sometimes, however, conditions in uptown are different from those of campus, so please check my Canvas whenever winter weather conditions threaten.

Diversity

The Belk College of Business strives to create an inclusive academic climate in which the dignity of all individuals is respected and maintained. Therefore, we celebrate diversity that includes, but is not limited to ability/disability, age, culture, ethnicity, gender, language, race, religion, sexual orientation, and socio-economic status.

Title IX Reporting Obligations

UNC Charlotte is committed to providing an environment free of all forms of discrimination and sexual harassment, including sexual assault, domestic violence, dating violence, and stalking. If you (or someone you know) has experienced or experiences any of these incidents, know that you are not alone. UNC Charlotte has staff members trained to support you in navigating campus life, accessing health and counseling services, providing academic and housing accommodations, helping with legal protective orders, and more.

Please be aware that many UNC Charlotte employees, including all faculty members, are considered Responsible Employees who are required to relay any information or reports of sexual misconduct they receive to the Title IX Coordinator. **This means that if you tell me about a situation involving sexual harassment, sexual assault, dating violence, domestic violence, or stalking, I must report the information to the Title IX Coordinator.** Although I have to report the situation, you will still have options about how your case will be handled, including whether or not you wish to pursue a formal complaint. Our goal is to make sure you are aware of the range of options available to you and have access to the resources you need.

If you wish to speak to someone confidentially, you can contact any of the following on-campus resources, who are not required to report the incident to the Title IX Coordinator: (1) University Counseling Center (counselingcenter.uncc.edu, 7-0311); (2) Student Health Center (studenthealth.uncc.edu, 7-7400); or (3) Center for Wellness Promotion (wellness.uncc.edu, 7-7407). Additional information about your options is also available at titleix.uncc.edu under the “Students” tab.

Disability Accommodations

Students in this course seeking accommodations to disabilities must first consult with the Office of Disability Services and follow the instructions of that office for obtaining accommodations.

Class Structure, Readings and Dates

This schedule of readings is tentative and is subject to change. The test dates, however, are firm and not subject to change. You are expected to have read the material **before** coming to class.

Note that B&E indicates the Brigham and Erhardt text, and GCM&E indicates the Geltner, Miller, Clayton and Eichholtz text. Any supplemental material will be posted in Canvas.

Date	Topic	Reading Material
Finance Fundamentals		
8/21	Introduction Financial Fundamentals	B&E Chapter 1 GMC&E Chapter 1
8/28	Financial Statements – Real Estate Applications Time Value of Money	B&E Chapter 2 GMC&E Chapter 11.1 B&E Chapter 4 GMC&E Chapter 8
9/4	Time Value of Money Mortgage Mechanics Problem Set #1 Assigned	Time Value Primer GMC&E 16
9/11	Mortgage Mechanics Bond (Debt) Mechanics	GMC&E 17 B&E Chapter 5
9/18	Bond (Debt) Mechanics Problem Set #1 Due	B&E Chapter 5
9/25	Midterm #1	
Principals of Financial Management		
10/2	Risk, Return, and Asset Pricing Problem Set #2 Assigned	B&E 6, 25 GMC&E 9
10/9	Risk, Return, and Asset Pricing	B&E 6, 25 GMC&E 9
10/16	Real Estate, Risk, and Return Problem Set #2 Due	GMC&E 22
10/23	Valuations of Stocks Real Estate Valuation Problem Set #3 Assigned	B&E 7 GMC&E 10
10/30	Cost of Capital Real Estate Cost of Capital	B&E 9 GMC&E 11.2
11/6	Project Valuation Problem Set #3 Due	B&E 10, 11
11/13	Capital Structure Cost of Capital in Real Estate Problem Set #4 Assigned	B&E 16 GMC&E 15
11/20	Midterm #2	
Advanced Topics		
11/29	Thanksgiving Holiday – no class	
12/4	Financial Options Financial Options and Real Estate Problem Set #4 Due	B&E 8 Supplemental Material
12/11	Final Exam 5:30-8:00	