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AirBnB Bloomberg Assignment

FIN 2200 Winter 2021

David has always wanted to retire and start his own bed and breakfast. Is this the year he'll finally live the dream?

David has heard about AirBnB and how he can list his property through this service in order to match with people wanting a place to stay. He's heard you are a bright FIN 2200 student who has just started a consulting LLP with some of your FIN 2200 classmates. He has hired you to do a cost/benefit analysis of purchasing a property and then renting it out on AirBnB. His decision will rely on your opinion on whether it is a good idea to buy a place and list it on AirBnB. He notes that:

- **The due date is 11:59 pm, April 15, 2021.**
- You may work in groups of up to 5 to complete this assignment. Please form your own groups. If you do not have a group and would like to be assigned to a group with other students who are also looking for a group, please email your instructor.
- You must submit one electronic version of the assignment per group on UM Learn.
- Please ensure the first and last names, student number, and section number for all group members are on the first page of the assignment submission.
- The assignment is worth 8% of your final grade.
- Please note what currency your values are in (you may need to use foreign data/values).
- Assume income tax rates are 20% (and you are a sole proprietorship or partnership).
- **Reference or document any data you use.**
- Your report should be professional, clear, concise, logical, and easy to understand with a direct writing style, free from grammatical and spelling errors. If he is impressed, David may recommend your consulting start-up to his colleagues, which would really help you grow your business.
- As in the workplace, it is essential to learn how to function effectively within teams and contribute to group goals. We recommend you meet online using Skype, Google Hangout, Zoom, etc.
 - It is your responsibility to ensure you are adequately and consistently meeting your obligations and responsibilities to the team. It is also your responsibility to inform fellow team members if they are not meeting their obligations. To ensure this is the case, peer evaluations will occur anonymously and confidentially at term-end after the project has been submitted. These peer evaluations may lower one's score relative to the group's score (but will not raise one's score relative to the group's).

David wants four main analyses in the report:

- 1) **Investment Cash Flows (15 marks):** How much is your property going to cost?
 - a. Choose a property and estimate its cost (3 marks)

- i. Hint: MLS is a great source for this.
 - b. Calculate other purchase expenses (3 marks)
 - i. Hint: there are many expenses when purchasing a property!
 - c. Salvage Value: Estimate how much you will be able to sell the property for in 5 years (3 marks)
 - i. Hint: This should be net of any selling expenses. Selling property has many costs
 - d. Other investments (3 marks)
 - i. Are other investments required to bring your AirBnB online?
 - ii. Hint: People want to be feel at home when traveling.
 - e. Present value of capital cost allowance (CCA) tax shield (3 marks)
 - f. **Be sure to document your data sources**
- 2) **5 Year Pro Forma Operating Cash Flows (15 marks):** You will need to forecast yearly income and expenses for the next 5 years. Include all relevant income and expenses, including, but not limited to:
- a. AirBnB Revenue (4 marks)
 - b. Property Tax (2 marks)
 - c. Utilities (2 marks)
 - d. Maintenance and repair (2 marks)
 - e. Cleaning and other amenities (2 marks)
 - f. Other relevant cash flows you foresee (3 marks)
 - g. **Be sure to document your data sources**
- 3) **Calculate weighted average cost of capital (40 marks):**
 Use the Bloomberg terminals to find the following information for 2 firms that **primarily provide accommodation to travelers** (“comparables”) that have been publicly traded for at least 3 years. *Hint: REITs companies are good comparables and AirBnB itself is a terrible comparable since it doesn’t manage property of any kind.*
- a. Explain why the two firms you have chosen are useful comparables. (Max ½ page) **(2 marks)**
 - b. Calculate amount of debt: For the 2 comparables, calculate the total long-term debt the firms hold. **(4 marks)**
 - i. Please use **market value** if possible from Bloomberg
 - ii. If not available, please use **book value**
 - c. Calculate the market capitalization of equity for the 2 comparables. **(4 marks)**
 - d. Calculate cost of equity: Find the following information to determine the cost of equity for the 2 comparables using the dividend discount model and the CAPM beta
 - i. Dividend discount model **(12 marks):** You need to find
 1. cash dividend
 2. cash dividend growth rate over the past 3 years (see the DVD menu)
 3. the current stock price
 4. use this information to calculate the cost of equity

- a. Note: annualize the cost of equity
- b. If dividends are not available, use EPS and make an assumption for the dividend payout ratio.
- ii. CAPM Model **(12 marks)**: You need to calculate the cost of equity for both comparables.
 1. Levered stock beta: Find each comparable's levered beta
 2. Expected return on market: Use the geometric average return on the TSX 60 Composite Index over the past 5 years.
 3. Risk-free rate: Use Canadian T-bill yields
- iii. Average the cost of equity from the dividend discount model and CAPM model cost of equities for your analysis
- e. Calculate cost of debt: Find the cost of an appropriate mortgage. **(2 marks)**
 - i. Most banks and credit unions post this information.
 - ii. Please use a fixed-rate mortgage (variable rates are difficult to forecast).
- f. Use the information from a-d above to calculate the WACC for your AirBnB. **(4 marks)**
 - i. Assume that you will use an average of the debt/equity structure of your two comparables.
 - ii. Assume that your cost of equity will be the average of the two comparables.
 - iii. Assume that your cost of debt will be your mortgage rate.
- g. Be sure to document your data sources**

4) Final Recommendation **(30 marks)**

- a. Calculate the NPV of cash flows over the 5 year lifespan of the project **(5 marks)**
- b. Would you recommend David undertake this project? Why or why not? (Max ½ page) **(5 marks)**
- c. How can you improve the NPV of this project? Explain. (Max ½ page) **(5 marks)**
- d. *Corporate Social Responsibility*: David would like to know what potential stakeholder conflicts he may encounter during this project. Please outline at least 1 potential stakeholder conflict that may occur and recommend how David may address this. (Max ½ page) **(5 marks)**
- e. The overall report should be professional looking and easy to read (i.e. as if prepared for a paying client). Your report should be clear and concise with a direct writing style, free from grammatical and spelling errors. **(10 marks)**

FAQ

- How can I find out how much X is?
 - Try searching the internet or making a few phone calls to people who might know. Be resourceful. **Please document your source.**
- There aren't enough Canadian companies that do traveller accommodation.
 - You may use foreign companies as comparables.

- For simplicity, just assume that any international betas and debt yields are equivalent to Canadian values. In FIN 3450 (International Finance) you would address the international issues in more detail.
- Does it matter if the project shows a good NPV?
 - The actual end value is not the important part of the assignment--you may find that your property is a good (or not good) investment. Just like in real-life, some investments are not a good choice and identifying them early is very valuable.



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