

The University of Melbourne

Semester Two, 2003

Faculty of Architecture, Building and Planning

COPY

Subject Number: 702-211
Subject Title: Property 2

Exam Duration: Three (3) hours
Reading Time: 15 minutes
This paper has 4 pages

Authorised materials:

Electronic calculators

Instructions to Invigilators:

Standard script books only required.
Exam paper may be removed from the examination room.

Instructions to students:

Write your student number and the question numbers on each answer booklet.
Answer **all seven (7)** questions.

Paper to be held by Baillieu Library

QUESTION 1

Explain your understanding of the following (include working examples where possible):

- (a) 'Land Channel' and how it assists the property professional;
- (b) an annuity;
- (c) an internal rate of return (IRR);
- (d) the relevance of the eleventh year of income in relation to a ten year Discounted Cash Flow valuation;
- (e) how to derive a 'Discount Rate' (or 'Term Yield') for the valuation of an office building using a Discounted Cash Flow approach.

(20 marks)

QUESTION 2

- (a) Explain exactly what a "Term and Reversion" valuation approach is and how it is used to value property. Use a working example and include a diagram in your answer.

(10 marks)

- (b) Show your understanding of "incentives" with regard to valuing income-producing property. What are they, how are they used, and how do they affect the valuation process? Where do you find out about the level of incentives in a marketplace?

(5 marks)

Total for Question 2

(15 marks)

QUESTION 3

You have been asked to give a presentation to a group of property investors about using the income approach to valuing a multi-tenanted building. The title of the talk is "Why the fear of DCF?"

Present an outline of your talk and contrast the differences between the two main approaches to valuing an income producing building. List the positive and negative aspects of each approach.

(15 marks)

QUESTION 4

Write short answers on the following:

- (a) how Industrial Property differs from other property types;
- (b) at least five (5) different zonings for Industrial Property;
- (c) the main approaches to valuing Industrial Property;
- (d) how obsolescence and depreciation affects Industrial Property.

(20 marks)

QUESTION 5

There is a difference between 'market value' and 'investment value' in regards to property.

State your definition of each term. Explain how they differ, and how the actual values are calculated for valuation purposes.

(10 marks)

QUESTION 6

Show your understanding of how to value an office building using the 'capitalisation of income' approach. What is a 'capitalisation rate' and where does it come from?

In your answer use a working example including an analysis of recent sales.

(10 marks)

QUESTION 7

Risk is a major consideration in the valuation of an office property.

Discuss your understanding of 'risk' and how it is reflected in the valuation of an income producing building. List and comment on various groupings of risk.

(10 marks)

Total for Examination Paper

(100 marks)

END OF EXAMINATION PAPER