

The University of Melbourne

Semester Two, 2005

Faculty of Architecture, Building and Planning

Subject Number: 702-211
Subject Title: Property 2

Exam Duration: Three (3) hours
Reading Time: 15 minutes
This paper has 3 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 six (6) questions

Paper to be held by Baillieu Library

QUESTION 1

There are three main forms of obsolescence that affect the income and expenses associated with a multi-tenanted office building. State each type of obsolescence, and explain how each one affects the cashflow. In your answer use an example of each type of obsolescence and explain how it relates to an office building.

(15 marks)

QUESTION 2

Answer the following questions in reference to the valuation of a multi-tenanted office building.

- (a) What is the difference between an 'all risk yield' (ARY) and a capitalisation rate?
- (b) Where does a capitalisation rate come from?
- (c) What does a lease mean if it is 5 + 5 + 5 ?
- (d) What is the relationship between a capitalisation rate and risk?
- (e) What is the difference between a 'gross' lease and a 'net' lease ?

(20 marks)

QUESTION 3

You have been asked to prepare a 'state of the market' report for a private investor. Discuss the process or steps you would take to complete this task. Identify any sources of information that you would use as well as any limitations you may encounter in the preparation of this report.

(20 marks)

QUESTION 4

The 'discount rate' or 'target return' is an integral component of a discounted cash flow (DCF). Explain exactly what this component does in a DCF and how it affects the overall DCF. Also discuss how the 'discount rate' or 'target return' is calculated. Use a working example in your answer.

(15 marks)

QUESTION 5

Discuss your understanding of the 'internal rate of return' (IRR) and 'net present value' (NPV) in relation to using a discounted cash flow (DCF). State a definition for IRR and NPV. Explain how each term is used to interpret the results of a DCF and use examples in your answer.

(15 marks)

QUESTION 6

Highlight the differences between the following in relation to valuing an income producing building:

- (a) equated yield vs. equivalent yield;
- (b) reversionary yield vs. all risk yield (ARY);
- (c) capital expenditure vs. maintenance costs;
- (d) vacancy rate vs. level of incentives;
- (e) 2 year DCF vs. 10 year DCF

(15 marks)

TOTAL MARKS

100 marks

END OF EXAMINATION PAPER