

**The University of Melbourne**

**Semester Two, 2006**

**Faculty of Architecture, Building and Planning**

**Subject Number:** 702-211  
**Subject Title:** Income Property Analysis

**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**

The internal rate of return (IRR) is an integral component of a discounted cash flow (DCF). State a definition of what an IRR is. Explain exactly what this component does in a discounted cash flow (DCF) and how it affects the overall DCF. Discuss how the IRR is calculated and identify the advantages and disadvantages of using an IRR.

**(15 marks)**

### **QUESTION 2**

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

- (a) What is the relevance of PRISM?
- (b) Where does the discount rate or target return come from?
- (c) What is the relevance of yr 11 income in a discounted cash flow?
- (d) What is the relationship between risk and the capitalisation rate?
- (e) How would you find out information about incentives in the marketplace?

**(20 marks)**

### **QUESTION 3**

Stakeholders in the office market are increasingly accepting 'sustainability' in their analysis of office buildings. Explain exactly what sustainability is with reference to office buildings and include examples where possible. Identify every variable in a discounted cash flow that is affected by sustainability. Explain how these variables are affected in monetary terms.

**(20 marks)**

#### **QUESTION 4**

Traditionally there are three main forms of obsolescence that affect the income and expenses associated with a multi-tenanted office building, with a new fourth type of obsolescence having recently emerged. State each type of obsolescence, and explain how each one affects the cash flow. In your answer use an example of each type of obsolescence and explain how it relates to an office building.

**(15 marks)**

#### **QUESTION 5**

Investment in residential housing is viewed as income-producing property. How would you examine a residential investment property and which variables are most important? What is the current range of returns (%) in Melbourne for residential property? Explain what negative gearing is and use a working example in your answer.

**(15 marks)**

#### **QUESTION 6**

Discuss the following in relation to valuing a sustainable income producing building:

- (a) sources of information for the market analysis;
- (b) the relevance of the level of staff absenteeism;
- (c) black water and grey water;
- (d) wind turbines;
- (e) 'Greenstar'.

**(15 marks)**

**TOTAL MARKS**

**100 marks**

**END OF EXAMINATION PAPER**