Universiti Tun Hussein Onn Malaysia

UNIVERSITI TUN HUSSEIN ONN MALAYSIA

FINAL EXAMINATION
SEMESTER II
SESSION 2014/2015

COURSE NAME	:	REAL ESTATE INVESTMENT AND APPRAISALS
COURSE CODE	:	BPE 34003
PROGRAMME	:	3 BPD
EXAMINATION DATE	:	JUNE 2015/JULY 2015
DURATION	:	3 HOURS
INSTRUCTION	:	ANSWER **ALL** QUESTIONS

THIS QUESTION PAPER CONSISTS OF **FOUR (4)** PAGES

Q1 You are required to develop a pro forma statement of cash flow for the Betts Distribution Centre, an internet-based order fulfilment/distribution/office/ warehouse property. In addition to recoverable operating expenses, the new tenant will be billed for pass through including insurance and property taxes, which will be paid by the owner. Detail of the financial particulars is as follows:

Property Information
BETTS DISTRIBUTION CENTRE
Age of improvement: 8 years old.
Rentable space: 200,000 sq. ft.
Single tenant: 10 year lease term, net, net.

Financial information
Rent: RM7 per sq. ft. (7-year term), flat.
Recoverable Expenses from Tenant: RM1.50 per sq. ft., fixed.
Operating expenses: RM700,000.
Property taxes: 50,000.
Insurance: RM15,000.

Other cash outlays
Allowance for:
Recurring CAPEX/improve allowance: RM60,000.

(a) Develop a pro forma statement for the Betts property for a base year showing Net Operating Income (NOI).

(15 marks)

(b) Explain **FIVE (5)** important factors that should be considered when working on the future pro forma for Betts.

(10 marks)

Q2 A developer plans to finance a project costing RM150 million with a 70 percent, 25-year loan at an interest rate of 8 percent per annum. The project's NOI is expected to be RM1.2 million in year 1. The NOI, as well as its value, is expected to increase at an annual rate of 3 percent thereafter. The lender will require an initial debt coverage ratio of at least 1.2.

(a) Propose to the lender whether the projected cash flow justify for a loan by supporting your answer with a cash flow statement for a five-year period.

(10 marks)

(b) Decide whether there is a change in your answer in **Q2(a)** should the interest rate increase to 10 percent per annum, NOI and its value increase to 5 percent, while the desire debt coverage ratio remains at 1.2.

(15 marks)

Q3 An investor has projected three possible scenarios for a project.

Pessimistic: Net Operating Income (NOI) will be RM200,000 for the first year, and decrease 2 percent each year over a five-year holding period. The property is expected to sell at RM1.8 million after five years.
Most likely: NOI will be leveled at RM200,000 per year for the next five years (level NOI) and the property will sell for RM2 million.
Optimistic: NOI will be RM200,000 for the first year and increase 3 percent per year over a five-year holding period. The property will then sell for RM2.2 million.

The asking price for the property is RM2 million. The investor thinks there is about a 30 percent probability of the pessimistic scenario, a 40 percent probability of the most likely scenario and a 30 percent probability of the optimistic scenario.

(a) Prepare a statement of analysis for each of the scenarios indicating the Internal Rate of Return (IRR), expected IRR, variance and standard deviation of the respective scenario IRR.

(15 marks)

(b) Compare the result from **Q3(a)** should a loan for RM1.5 million is obtained at 10 percent interest rate by assuming that the loan is paid annually.

(10 marks)

Q4 Treetop Associate Group (TAG) is seeking financing for acquisition and development of 147 homesites. The land will cost RM1.5 million and TAG estimates direct development costs to become additional RM2.7 million. City Bank will make a loan covering 40 percent of the land acquisition cost, 100 percent of the direct improvement cost, and interest carry at 11 percent interest with a 3 percent loan origination fee.

TAG has decided to split the development into two parcel types, standard and deluxe, with the standard parcels comprising 87 plots from a total of 147 homesites. Also, TAG thinks that the deluxe sites will be priced at a RM2,000 premium over the standard parcel price of RM36,000. Total projected revenue will be RM5, 412,000. After making a 60 percent down payment for the land and incurring closing cost of RM50,000, TAG believes that the remaining development cost will be drawn down at RM600,000 a month for the first three months and RM300,000 a month for the next three months. Parcel sales are expected to begin during the fourth month after closing. TAG estimates that they will sell three standard parcels and four deluxe parcels a month for the remainder of the first year, and five standard parcels and two deluxe parcels per month for the second year.

The company and the bank have agreed to a repayment schedule calling for the loan to be repaid at a rate 20 percent faster than the receipt of sales revenue; that is, the loan plus interest carry per parcel will be repaid when approximately 83.33 percent of all revenues are realised. Other costs to consider include sales expanse (paid quarterly at a rate of 5 percent on parcels sold during the quarter), administrative costs of RM7,500 per quarter, and property taxes of RM19,999 at the end of each year.

(a) Compute the release price for each plot type.

(5 marks)

(b) Compute the total loan amount including interest carry for TAG.

(5 marks)

(c) Prepare a schedule of payment based on answer from **Q4(b)** showing when TAG will have the loan fully repaid.

(15 marks)

-END OF QUESTIONS-