



UNIVERSITI TUN HUSSEIN ONN MALAYSIA

**FINAL EXAMINATION
SEMESTER II
SESSION 2011/2012**

COURSE NAME : REAL ESTATE INVESTMENT
AND APPRAISAL

COURSE CODE : BPE 3403

PROGRAMME : 3 BPD

EXAMINATION DATE : JUNE 2012

DURATION : 3 HOURS

INSTRUCTION : ANSWER ALL QUESTIONS

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

- Q1** Seharta Berhad is in the process to choose between two equal-risk mutually exclusive investment projects; Office and Retail development. The relevant cash flows for each project are shown in the following **Table S1**. The firm cost of capital is 14 percent.

Table S1: Cash Flows for Office and Retail Projects

	Office	Retail
Initial Investment (CF_0)	RM28,500	RM27,000
YEAR,	Cash Inflows (CF_t)	
1	RM10,000	RM11,000
2	RM10,000	RM10,000
3	RM10,000	RM9,000
4	RM10,000	RM8,000

- (a) Compute the Net Present Value (NPV) for each project.

(5 marks)

- (b) Compute the Internal Rate of Return for each project.

(5 marks)

- (c) Summarize the preferences dictated by each measure that you have calculated and indicate which project you would recommend. Justify your answer.

(15 marks)

- Q2** You have a choice between the following two identical properties. Home A is priced at RM150,000 with 80 percent financing at a 10.5 percent interest rate for 20 years. Home B is priced at RM160,000 with assumable mortgage of RM100,000 of 9 percent interest with 20 years remaining. Monthly payments are at RM899.73. A second mortgage for RM20,000 can be obtained at 13 percent interest for 20 years. All loans require monthly payments and are fully amortizing.

- (a) With no preference other than financing, choose property that is worth to invest.

(5 marks)

- (b) Assuming that seller of Home B provide a second mortgage for RM20,000 at the same 9 percent rate as the assumable loan, explain whether your decision with respect to **Q2(a)** has changed or otherwise.

(10 marks)

- (c) Justify your decision to choose between Home A and Home B if the seller of Home B provide a second mortgage for RM30,000 at the same 9 percent rate as the assumable loan so that no additional down payment would be required by the buyer if the loan were assumed.

(10 marks)

- Q3** Kelana Properties Berhad is in the process of evaluating two mutually exclusive investment projects located in two different states. The company's investment analyst has developed pessimistic, most likely and optimistic estimates of the annual cash inflows associated with each project. The estimates are shown in the following table.

Table Q3: Cash flows Estimates

	Investment A	Investment B
Initial Investment (CF_0)	RM8,000	RM8,000
Outcome	Annual Cash Inflows (CF_t)	
Pessimistic	RM200	RM900
Most likely	RM1,000	RM1,000
Optimistic	RM1,800	RM1,100

- (a) Determine the range of annual cash inflows for each of the two projects.

(5 marks)

- (b) Assume that the company's cost of capital is 10 percent and that both projects have 20 years lives. Construct a table similar to Table Q3 for the NPV for each project. Include the range of NPV for each project.

(10 marks)

- (c) Do answer in Q3 (a) and Q3 (b) provide consistent view of the two projects? Explain your answer.

(10 marks)

- Q4** Market efficiency is a topic that frequently discussed in an investment portfolio that is liquid in nature. As a result of illiquidity nature of real estate market, many real estate professionals agree that the market is inefficient.

- (a) Define market efficiency.

(5 marks)

- (b) Discuss common belief among real estate valuers that real estate market is grossly inefficient.

(10 marks)

- (c) Explain the importance of real estate market efficiency.

(10 marks)

END OF QUESTION PAPER

FINAL EXAMINATION

SEMESTER / SESSION : SEM II / 2011/2012

PROGRAMME : 3BPD

COURSE : REAL ESTATE INVESTMENT AND APPRAISAL

COURSE CODE : BPE 3403

No.	Item	Formula
1.	Future Value (FV)	$FV = PV (1 + i)^n$
2.	Present Value (PV)	$PV = FV (1 + i)^{-n}$
3.	Future Value Interest Factor Annuity (FVIFA)	$FVIFA = PMT \left(\frac{(1 + i)^n - 1}{i} \right)$
4.	Present Value Interest Factor Annuity (PVIFA)	$PVIFA = PMT \left(\frac{1 - (1 + i)^{-n}}{i} \right)$
5.	Amortization	$PMT = \frac{iLOAN}{1 - (1 + i)^{-n}}$