FINAL EXAM (VA) Fina 210 Section CX (SUMMER 2013)
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Read Instructions carefully

Question #1
The notary finalizes the transaction between the buyer, the seller and the appraiser.

a. True
b. False

Anand

Question #2
When will the nominal rate per annum be greater than the effective rate of return?

a. This is not possible
b. When there is no compounding at all per annum
c. When the compounding period per annum is negative
d. When the compounding period per annum is between zero and one
e. None of the above

Question #3
Which of the following is a variable in the time value of money calculations?

a. Payment
b. Purchase price
c. Down payment
d. a and b
e. None of the above

Question #4
If the nominal rate is 8.00 percent every three months, what is the effective annual rate?

a. 32%
b. 8.24%
c. 36.05%
d. 25.97%
e. None of the above

Question #5
What is the present value of an annuity, of $2,000 per annum for 10 years, assuming end of year payments? Interest rate is 8.10 percent per annum.

a. $15,526
b. $13,420
c. $28,973
d. $13,360
e. None of the above

Question #6
One of the real estate pricing issues is due to the problems with real estate data, such as, the use of appraisal values instead of actual values; short-run evaluations; small sample size; and evaluating the real estate investments on a un-levered (no- financing) basis.
Do you agree with all the above reasons?

a. Yes
b. No

Question #7
The law of agency discusses the different types of real estate listings permitted by law and certified by the broker.

a. True
b. False

Question #8
The debt service schedule or loan amortization schedule is prepared by the _______ for the _______.

a. Mortgage lender; equity investor
b. Mortgage lender; tenant
c. Mortgage lender; government
d. Accountant; mortgage lender
e. Non of the above

Question #9
The third party agrees with the principal to hire the same broker to minimize the broker's commission, which must be paid when broker brings in a ready, willing and able buyer.

a. True
b. False

Question #10
The notary does not have to payout the commissions if the transaction did not materialize even if the buyer wants to buy and has the money for it.

a. True
b. False

Question #11
The exclusive right-to-sell listing means that the owner can sell the property and does not have to pay the commission to the agent.

a. True
b. False

Question #12
The company acquired a property for $600,000. The building costs are 70% of the value and the balance is land. What is the capital cost allowance for Year 2 if the capital cost allowance is 20% declining balance method; half-year rules applies and put-in-use in effect (new rules)?.

a. $108,000
b. $67,200
c. $84,000
d. $75,600
e. None of the above

Question #13
Use the information below to answer the following question.
Asking price $600,000
Property sold for 95% of asking price
Loan-to-value ratio (LVR) of 85%
Interest rate (nominal) per annum is 7.50% per annum compounded semi-annually
Mortgage payment paid annually
Term of loan 15 years
What is the mortgage payment per annum?

a. $55,368
b. $66,292
c. $56,054
d. $56,521
e. None of the above

Question #14
Use the information below to answer the following question.
Property value $750,000
Loan-to-value ratio (LVR) of 80%
Interest rate (nominal) per annum is 6.75% per annum compounded semi-annually
Mortgage payment paid annually
Term of loan 20 years
What is the loan balance after 3 mortgage payments?

a. $551,766
b. $556,713
c. $547,398
d. $552,306
e. None of the above

Question #15
Use the information below to answer the following question.
Property value $750,000
Loan-to-value ratio (LVR) of 85%
Interest rate (nominal) per annum are as follows: ~
Year 1. 7.20% per annum compounded semi-annually
Year 2. 8.35% per annum compounded semi-annually
Year 3. 6.50% per annum compounded semi-annually
Mortgage payment paid annually
Term of loan 10 years
What is the principal portion of the 2nd mortgage payment?

a. $46,385
b. $45,437
c. $46,726
d. $50,470
e. None of the above

Question #16
Use the information below to answer the following question.
Property value $700,000
Loan-to-value ratio (LVR) of 65%
Interest rate (nominal) per annum are as follows: ~
Year 1. 8.35% per annum compounded semi-annually
Year 2. 7.20% per annum compounded semi-annually
Year 3. 6.80% per annum compounded semi-annually
Mortgage payment paid annually
Term of loan 15 years
What is the interest portion of the 3rd mortgage payment?

a. $30,000
b. $29,038
c. $28,553
d. $32,171
e. None of the above

Question #17
Which of the two of the following four environments deals with the feasibility and profitability of the project?

a. Legal & Market
b. Legal & Financing
c. Financing & Taxation
d. Market & Taxation
e. None of the above

Question #18
The equity investor could be an individual and / or any forms of business organization. What is another name for this equity investor?

a. Tenant
b. Landlord
c. Broker
d. Notary
e. None of the above

Question #19
The participant called "government" could be any of the following:

a. Federal, Provincial, International
b. Federal, Provincial, Municipality
c. Provincial, Municipality, District
d. Federal, Municipality, County
e. None of the above

Question #20
The mortgage lender could loan you money on a short-term basis or long-term basis (maturity). What would you choose to avoid risk?

a. Higher rates comes with longer maturities
b. Higher rates comes with shorter maturities
c. Lower rates comes with longer maturities
d. Lower rates comes with short-term maturities
e. None of the above

Question #21
The major participant that deals with wealth taxation and income taxation is the:

a. Notary
b. Mortgage lender
c. Government
d. Tenant
e. None of the above

Question #22
What is the future value of an annuity, of $1,500 per annum for 9 years, assuming end of year payments? Interest rate is 10.50 percent per annum.

a. $20,803
b. $23,318
c. $8,469
d. $17,468
e. None of the above

Question #23
Using actual values may lead to understating the expected return because actual values are usually understated.

a. True
b. False

Question #24
Companies invest in real estates as part of their portfolios because there is limited number of good stocks and bonds and appraisal values can be used to estimate the expected return.

a. True
b. False

Question #25
Studies have shown that companies invest in real estate as part of their portfolios because real estate investments are positively correlated with the markets.

a. True
b. False

Question #26
Rent income is less certain when compared with other income and that is probably one of the reasons why real estate investments are less risky than the other investments in the market.

a. True
b. False

Question #27
Use the information below to answer the following question.
You have cash on hand
Property value $500,000
Loan-to-value ratio is 70%
Interest rate (nominal) is 6.50% per annum compounded semi-annually
Processing fees is 1.50% of loan
Cancellation penalty is 1.80% of outstanding mortgage balance
Mortgage payment paid annually
Term of loan 15 years
How much do you owe the bank if you leave at the end of Year 8?

a. $204,778
b. $230,927
c. $208,462
d. $210,026
e. None of the above

Question #28
The construction of a building costing $12,000,000 started in Year 1 and was completed and occupied in Year 2 (two years constructions). $8,000,000 of the construction costs was incurred in Year 1 and the balance in Year 2.
Using the old rules or system (5% CCA rate, declining balance method, full year rule and no put-in-use), what is the capital cost allowance (CCA) in Year 3?

a. $551,000
b. $570,000
c. $561,000
d. $598,500
e. None of the above

Question #29
The construction of a building costing $12,000,000 started in Year 1 and was completed and occupied in Year 2 (two years constructions). $8,000,000 of the construction costs was incurred in Year 1 and the balance in Year 2.
Using the new rules or system (4% CCA rate, declining balance method, half-year rule and put-in-use in effect), what is the capital cost allowance (CCA) in Year 3?

a. $480,000
b. $467,200
c. $451,600
d. $470,400
e. None of the above

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Question #30
Which of the following does consider the time value of money, when applying the decision-making criteria in the real estate investment process?

a. Rules of thumb techniques
b. Cost approach
c. Discounted payback period
d. Sales or market comparable approach
e. None of the above

Question #31
All costs are required to be accumulated before the calculations of capital cost allowance. This concept is called:

a. Gross income multiplier
b. Deferred annuity
c. Overall capitalization rate
d. Put-in-use
e. None of the above

Question #32
The asking price is $240,000 and the property was sold at a 9 percent discount. The loan-to-value ratio is 70 percent and the processing fees are 2 percent of loan. How much must you borrow if you have cash on hand?

a. $157,714
b. $157,248
c. $154,560
d. $152,880
e. None of the above

Question #33
You purchased a property for 80 percent of the asking price of $250,000. You put down 20 percent of the purchase price as down payment. Processing fees is 1.60 percent of loan. How much did the bank give you on signing the loan agreement, assuming you have cash on hand?

a. $160,000
b $157,440
c. $157,600
d. $197,000
e. None of the above

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Question #34
Use the information below to answer the following question.
You have cash on hand
Property value $500,000
Loan-to-value ratio (LVR) of 70%
Interest rate (nominal) per annum is 7.50% per annum compounded semi-annually
Processing fees is 2.50% of loan
No cancellation penalty
Mortgage payment paid annually
Term of loan 15 years
What is the effective cost of borrowing (ECB)?

a. 7.69%
b. 8.01%
c. 8.05%
d. 7.84%
e. None of the above

Question #35
Which two of the three traditional valuation methods are often used in the evaluation of residential properties?

a. Income approach and cost approach
b. Gross income approach and return on investment approach
c. Market comparable approach and income approach
d. Sales comparable approach and cost approach
e. None of the above

Question #36
Which of the following is not a type of real estate?

a. Appraisal
b. Industrial
c. Office
d. Residential
e. None of the above

Question #37
The mortgage document will not deal with which of the following?

a. Loan
b. Mode of payment
c. Selling price
d. Term and the interest rate
e. None of the above

Question #38
The lease agreement has nothing to do with:

a. Equity investor
b. The real estate property
c. Bank
d. Government
e. None of the above

Question #39
Mortgage laws are there to protect the tenant, bank, landlord and government.

a. True
b. False

Question #40
Use the information below to answer the following question.
You have cash on hand
Property value \$400,000
Down payment is \$120,000 (i.e. LVR is 70%)
Loan #1 = \$200,000
Loan #2 = \$80,000
Interest rate (nominal) for Loan #1 is 8.40% per annum compounded semi-annually
Interest rate for Loan #2 is 9% per annum compounded semi-annually
Processing fees is \$2,500
No cancellation penalty
Mortgage payment paid annually
Term of loan 12 years
What is the effective cost of borrowing (ECB)?

a. 8.89%
b. 8.93%
c. 8.70%
d. 8.78%
e. None of the above

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Question #41
Use the information below to answer the following question.
You have cash on hand
Property value $800,000
Loan-to-value ratio is 70%
Interest rate (nominal) is 8.75% per annum compounded semi-annually
Processing fees is $28,000
Cancellation penalty is 2.50% of outstanding mortgage balance
Mortgage payment paid annually
Term of loan 12 years
What is the effective cost of borrowing (ECB), if you stayed for 5 years?

a. 12.27%
b. 10.74%
c. 12.36%
d. 10.96%
e. None of the above

Question #42
Use the information below to answer the following question.

- 25,000 rentable space
- $25 rent per square foot
- 8% vacancy and credit losses
- operating expenses (without depreciation or CCA) is 30% of effective gross income
- Asking price is $750,000
- Property sold for 80% of asking price

What is the buyer's gross income multiplier (GIM)?

a. 1.20
b. 1.49
c. 1.04
d. 1.30
e. None of the above

Question #43
Use the information below to answer the following question.

- 28,000 rentable space
- \$22 rent per square foot
- 10% vacancy and credit losses
- operating expenses (without depreciation or CCA) is 40% of effective gross income
- Asking price is \$800,000
- Property sold for 75% of asking price

What is the seller's expected net income multiplier (NIM)?

a. 2.21
b. 1.80
c. 1.44
d. 2.41
e. None of the above

Question #44
Use the information below to answer the following question.

- 30,000 rentable space
- \$24 rent per square foot
- 12% vacancy and credit losses
- operating expenses (without depreciation or CCA) is 35% of effective gross income
- Asking price is \$840,000
- Property sold for 70% of asking price

What is the buyer's overall capitalization rate (OCR)?

a. 70%
b. 75%
c. 49%
d. 58%
e. None of the above

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Question #45
Use the information below to answer the following question.

- 32,000 rentable space
- $23 rent per square foot
- 10% vacancy and credit losses
- operating expenses (without depreciation or CCA) is 60% of effective gross income
- Asking price is $650,000

If the buyer got his expected overall capitalization rate of 45%, how much did the seller receive for the property?.

a. $331,200
b. $588,800
c. $481,700
d. $357,500
e. None of the above

Question #46
A property has 21,000 square feet of rental space. The vacancy and credit losses is expected at 8% and operating cost (without capital cost allowance) is 28 percent of effective gross income.
Financing details for this property is as follows: down payment is 30%; the loan is $400,000; Interest rate is 10% per annum compounded semi-annually; term of loan is 12 years.
The cost of the down payment is 6.50% above the effective cost of borrowing and 50% of the capital gains is taxed.
What is the net operating income if the rate is $25 per square foot for the first 10,000 square feet of space and $28 per square feet for the balance?

a. $357,120
b. $369,619
c. $366,860
d. $401,760
e. None of the above

Question #47

A property has 20,000 square feet of rental space. The cost of rent is $30 per square foot. The vacancy and credit losses is expected at 8% and operating cost (without capital cost allowance) is 30 percent of effective gross income.

Financing details for this property is as follows: Loan-to-value ratio is 65%; the loan is $325,000; Interest rate is 12% per annum compounded semi-annually; term of loan is 10 years. There are no processing fees.

The cost of the down payment is 5.00% above the effective cost of borrowing and 50% of capital gains is taxed.

What is the market value of the property using the net income approach?

a. $2,775,862
b. $2,738,483
c. $3,873,300
d. $3,546,125
e. None of the above

Question #48

The asking price of a property is $700,000 and you are given the following information for a sales comparable evaluation.

- Property prices increases at 2.60% per annum (inflation rate)
- $56 per square foot
- $22,000 per year reduction for age
- Two-car garage valued at $42,000 compared to $25,000 for a one-car garage
- Corner property warrants a 15% premium
- Swimming pool worth $30,000 considered a good selling point in this neighborhood

	Comparable	Subject Property
Selling Price	$650,000	See above
Sold	5 months ago	See above
Location	middle	corner
Size (square feet)	15,000	16,200
Age (years)	9	12
Garage	one-car	two-car
Swimming pool	yes	no

What is the estimated value of the subject property using the sales comparable approach?.

a. $793,283
b. $621,342
c. $742,742
d. $571,342
e. None of the above

Question #49

A property has 21,000 square feet of rental space. The vacancy and credit losses is expected at 8% and operating cost (without capital cost allowance) is 28 percent of effective gross income.

Financing details for this property is as follows: down payment is 30%; the loan is $400,000; Interest rate is 10% per annum compounded semi-annually; term of loan is 12 years.

The cost of the down payment is 6.50% above the effective cost of borrowing and 50% of the capital gains is taxed.

What is the effective cost of borrowing if you have cash on hand and there is a 2% processing fees based on the loan?

a. 10.46%
b. 10.67%
c. 10.41%
d. 10.25%
e. None of the above

Question #50

A property has 21,000 square feet of rental space. The vacancy and credit losses is expected at 8% and operating cost (without capital cost allowance) is 28 percent of effective gross income.

Financing details for this property is as follows: down payment is 30%; the loan is $400,000; Interest rate is 10% per annum compounded semi-annually; term of loan is 12 years.

The cost of the down payment is 6.50% above the effective cost of borrowing and 50% of the capital gains is taxed.

What is the weighted cost of capital if the tax rate is 40%; if there are no processing fees and you have cash on hand?

a. 9.33%
b. 12.20%
c. 13.57%
d. 7.90%
e. None of the above

Anand

End of Exam