

RE 310 – Principles of Real Estate
Sample Exam Questions – Investment Analysis

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- _____ 1. Who or what is king when it comes to real estate investments?
- A. Cash
 - B. Elvis
 - C. Donald Trump
 - D. Dr. Longhofer
 - E. Michael Jackson

Use the following information to answer the next three questions.

A retail center has 75,000 square feet gross leasable area. Of this, 25,000 square feet rents for \$25 per square foot (psf), while the remaining 50,000 rents for \$22.00 psf. On average, retail buildings in this area are experiencing a five percent vacancy rate. Each of the leases are triple-net leases, so the only operating expenses the owner will incur is a five percent management fee (based off of effective gross income). The current market value of this center is \$17.3 million

- _____ 2. What is this property's effective gross income (EGI)?
- A. \$86,250
 - B. \$1,638,750
 - C. \$1,710,000
 - D. \$1,725,000
 - E. \$1,800,000
- _____ 3. What is this property's net operating income (NOI)?
- A. \$1,725,000
 - B. \$1,638,750
 - C. \$1,624,500
 - D. \$1,556,813
 - E. \$1,552,500
- _____ 4. What is this property's cap rate?
- A. 9.97%
 - B. 9.47%
 - C. 9.39%
 - D. 9.00%
 - E. 8.97%

- _____ 5. A retail strip center is available for sale at a purchase price of \$753,000. It is expected to generate \$64,000 per year in net operating income. What is the cap rate at which you would be purchasing this property?
- A. 10.00%
 - B. 6.28%
 - C. 11.77%
 - D. 8.50%
 - E. None of the above
- _____ 6. Net operating income measures the
- A. before-tax cash flow available to equity investors.
 - B. after-tax cash flow available to equity investors.
 - C. anticipated sale price of the property.
 - D. cash available to distribute to lenders and equity investors.
 - E. gross income generated by the investment.
- _____ 7. Cap rates should be used with caution when used to evaluate investment opportunities because they
- A. ignore how the property's income may change over time.
 - B. do not account for property-specific risk.
 - C. do not take into account the property's operating expenses.
 - D. Both A and B
 - E. All of the above
- _____ 8. A commercial office building in Downtown Wichita is available for sale for \$3.5 million, which translates into a 12 percent cap rate given its expected net operating income. Comparable office buildings are currently selling at a 15 percent cap rate. Based on this information, which of the following statements is most correct?
- A. This appears to be a good investment because the building's cap rate is lower than the market cap rate.
 - B. This appears to be a poor investment because the building's cap rate is lower than the market cap rate.
 - C. This appears to be a good investment because the building's cap rate is higher than the market cap rate.
 - D. This appears to be a poor investment because the building's cap rate is higher than the market cap rate.
 - E. None of the above statements is correct

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- _____ 9. A retail strip center is available for sale at a purchase price of \$850,000. It is expected to generate \$68,000 per year in net operating income. What is the cap rate at which you would be purchasing this property?
- A. 6.80%
 - B. 8.00%
 - C. 8.50%
 - D. 12.5%
 - E. None of the above