

Nickname for grades _____

Name _____

Real Estate Investment Analysis

Fall 2011

Midterm Exam 1 – Version A

Dr. Stanley D. Longhofer

TTh 11:00-12:15

DO NOT OPEN THIS EXAM UNTIL I GIVE YOU PERMISSION TO BEGIN!

Midterm exam rules:

1. You may use one, 8 ½ x 11 inch pages of notes on the exam (front and back). These may contain any content you like. You may NOT swap your notes page during the exam. Please make sure all other notes, texts, etc. are put away and completely out of reach. Anyone caught referencing more than one page of notes on the exam or referring to other, unapproved materials will receive an automatic zero on the exam.
2. You may use a financial calculator. Cell phones, personal digital assistants, or similar electronic devices are NOT permitted, however. Use of unauthorized computer devices will also result in an automatic zero on the exam. Please make sure your cell phones are turned off. If you need me to monitor your cell phone for emergency purposes, bring it to me before class begins.
3. You have 1 hour and 20 minutes to take the exam.
4. I've tried to eliminate any ambiguity about how to interpret the questions on the exam. **IF YOU HAVE ANY QUESTIONS, PLEASE ASK.** If, after any clarification I provide, you make any assumptions not explicitly stated in the questions, make sure you write them down so I can see what you are doing.

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- d) What is the (effective) gross income multiplier for this property? Name one advantage and one disadvantage of using a gross income multiplier to evaluate a real estate investment.
- e) Suppose that KH can find financing for 70 percent of the purchase price with an annual debt service of \$285,856. What is the breakeven ratio on this investment? If the lender's benchmark breakeven ratio is 75 percent, does this investment meet this guideline? Explain.
- f) What is KH's cash-on-cash return from this investment?
- g) Based on these multipliers and ratios, do you recommend that KH purchase this property? Explain your answer in detail.

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- KH will sell the property at the end of year 5 assuming that the property's value will grow by 3 percent per year over its purchase price.

- KH will sell the property at the end of year 5 assuming that the property's value will grow by 3 percent per year over its initial market value.

- i) Based on these calculations, should KH make this investment? Explain the reasoning behind your answer.

