Fin 4713 Practice Exam 2 Homework Assignment

Exam 2 consists of 50 multiple choice questions.

The first 36 questions are multipart problems based on the Commercial Real Estate Proforma we have studied in class. The questions below, for which you are to document your solutions and hand in at the beginning of class on the date noted on the Fin 4713 Webpage, will help you prepare for this part of the exam.

The remaining 14 questions are based on the textbook, Chapter 10, 11, 23. As with other exams, the questions at the end of the chapter, and the online quizzes are helpful to prepare for this portion.

Use the following information for the next 6 questions. Building size: 90,000 square feet. Land Costs 3,000,000; Hard Costs 9,000,000; Soft Costs 1,500,000; Developer Fee 6% of hard costs; Equity Return 14%. Construction Loan Amount 8,000,000

What is the dollar per square foot of hard costs?

What is the dollar per square foot of construction costs?

What is the total project cost, not including return to equity?

What is the LTC for this project’s construction loan?

What is the total project cost, including return to equity?

The HVAC system is projected to costs $600,000. What percent of the total project cost (not including a return to equity) is from the HVAC system?
Use the following data for the next 13 questions. A local bank has approved a $10,000,000 construction loan at 5.5% with 0.75 points. The developer is required to contribute $3,000,000 to the project, and the bank has agreed to finance the remainder subject to the $10,000,000 limit.

This project can be built very quickly – in fact in 3 months. When the construction loan is closed, the 0.75 point loan fee will be charged. The monthly interest cost will be accrued on the loan, unless payments, as indicated below are made. Fill in the blanks in the table below. Remember to document your calculations.

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<th>Month</th>
<th>Funds Needed</th>
<th>Equity Contribution This Month</th>
<th>Bank Draw</th>
<th>Bank Interest</th>
<th>Payment to Bank</th>
<th>Bank Balance</th>
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</table>

How much do you pay in interest for this loan?

Use the following data for the next 6 questions. Your CRE property has two leasable spaces. Suite A, covering 30000 square feet of rentable space, has a full service lease at $25 with a projected 4% vacancy and collection loss. Suite B, covering 20000 square feet of rentable square feet, has a full service lease at $19 with a projected 6% vacancy and collection loss, and also provides $3500 per month in miscellaneous income. You have $6.50 per square foot in operating expense and $1.50 per square foot for capital expenditures. For year 1:

What is the GPI for Suite A?

What is the GPI for Suite B?

What is the EGI for Suite A?

What is the EGI for Suite B?

What is your building NOI?

What is your building’s Operating Expense Ratio?
Use the following data for the next 11 questions. Building Disposition (Year 6): You have projected NOI in year 7 at 550,000 and believe the going out cap rate will be 7%. Selling expenses are projected at 5.5%. Your original mortgage was for 5,000,000 with a 7% interest rate, 30 year amortization period, with one point, with a 1% prepayment penalty if repaid prior to its 7 year term. You are current with your payments. Your original basis was 6,000,000 and you have made $300,000 in capital improvements and have taken 700,000 in depreciation. Your depreciation recapture rate is 25% and capital gains tax rate is 18%.

What is your monthly mortgage Payment?

What is your mortgage payoff (include any prepay penalty)?

What is your projected sales price?

What is your net sales price?

What is your before tax equity reversion?

What is your adjusted basis?

What is your gain on sale?

What is your depreciation recapture tax?

What is your capital gains tax?

What is your total tax on sale?

What is your after-tax equity reversion?
Use the following data for the next 11 questions. You have purchased a building for $5,000,000. There are ongoing NNN leases that will create a constant NOI of 350,000 per year over the foreseeable future. You have obtained a 5-year, 5.25% bullet (i.e. interest only) loan, 60% LTV with 2 points. You expect to sell this building for a net of $6,100,000 (i.e. after selling expense are paid) five years from today.

What is your loan amount?

What is your initial capital cost?

What is your annual loan payment?

What is your going in cap rate?

What is the first year cash on cash return for this investment?

What is the first year Debt Coverage Ratio for this loan?

What is your year 1 before tax cash flow from operations?

What is your before tax cash flow from selling this building?

What is the before tax IRR of this investment?

For a 10% equity hurdle rate, what is the before tax NPV of this investment?

If your lender was satisfied with a 1.5 Debt Coverage Ratio (regardless of LTV), what is the maximum loan amount you could have obtained?