

FINANCE 673
REAL PROPERTY VALUATION

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Direct Capitalization

Practice Problems Set 2

1. *Based on the following information, what is the building capitalization rate?*

Land value	\$650,000
Net operating income	\$276,000
Land capitalization rate	10%
Overall capitalization rate	12% <u> </u>

2. Given:

I_0	\$220,000
R_E	0.0800
M	0.80
R_M	0.1000

A. *What is R_0 ?*

B. *What is value?*

C. *Show proof that your answers are correct.*

3. Equity investors expect a capitalization rate (R_E) of 7%. Current terms are 75% debt with a constant of 9%.

What is R_O ?

4. Given:

I_O	\$ 75,000
Loan amount	\$470,000
R_M	0.1000
R_E	0.0900

What is property value?

5. A property had net operating income of \$24,000 and sold for \$175,000. Annual debt service was \$17,500.

What was the R_O ?

6. A. *Given a minimum DCR of 1.15, a loan constant of 0.10, a loan-to-value ratio of 0.70, and net operating income of \$90,000, estimate the value of the property.*

B. *Show proof that your estimate is correct.*

C. *What is R_E ?*

7. Given:

20-unit apartment building	
Average monthly rent	\$600
Vacancy rate	7%
OER	35% of EGI
Expected EGIM	7.5
Loan-to-value ratio	0.70

A. *What is expected I_0 ?*

B. *What is V_0 ?*