University of Technology, Sydney

TO BE RETURNED AT THE END OF THE EXAMINATION.
THIS PAPER MUST NOT BE REMOVED FROM THE EXAM CENTRE.

Surname: ______________________

First Name/s: ______________________

STUDENT No.: ______________________

SPRING SEMESTER EXAMINATION

Tuesday 15 November 2011

2.00 - 5.00pm

16334 DEVELOPMENT MANAGEMENT

Instructions:

1. **Time Allowed : 3 Hours**

2. **Total Number of Questions: 5**

3. **Answer All Questions**

4. **Financial Business Calculators may be used.**

5. **Answers must be written in ink except where they are expressly required; pencils may be used only for drawing, sketching, or on Cash flow worksheet provided.**

6. **All workings must be clearly shown to demonstrate how the answer was arrived at.**

BACKGROUND TO QUESTIONS 1 to 4

NOTE: All questions relate to the following project.

A developer is currently undertaking a due diligence program for a proposed development. The developer has identified a property within the CBD of Sydney which has approval for an office building where a pre commitment to lease will be in place and a superannuation fund will purchase the building immediately upon completion. It also has an approval for residential apartments development where apartments will be sold off after a 12 month construction period with a 12 month selling period.

The developer is required to submit a formal offer to purchase in 2 weeks from today. The site currently comprises an older style 3 storey office building which is tenanted for a further 2 years. The site area is 1,850m^2 with a 10.5:1 FSR for Office and an FSR of 12:1 for Residential.

In order to determine the highest and best use of the site the developer intends to undertake some level of analysis of the market and also determine the maximum that can be paid for the site.

QUESTION 1 **20 Marks**

Part (a) 12 marks

Discuss the 3 different forms of funding available to a developer and in turn the advantages and disadvantages of each form.

Part (b) 8 marks

Discuss each of the 5 "C"s of Credit that the lender is likely to consider when the developer is seeking finance.

QUESTION 2 **15 Marks**

The following sales of commercial development sites have been located. Some of the sites will require existing tenants to be paid out and relocated. Advise the developer as to the maximum price they can pay for the site for Office purposes. The subject site will require a total of $1,000,000 to demolish the building plus to pay out and relocate the existing tenants.

Table of Commercial Development Sites:

Property	Sale Price	Site Area M/2	FSR: 1	Demolition Cost	Tenancy Cost
A	$15,000,000	1,250	8.0	$300,000	$300,000
B	$32,000,000	2,200	9.0	$750,000	$0
C	$26,000,000	1,700	10.5	$500,000	$500,000
D	$9,000,000	600	9.5	$100,000	$0

QUESTION 3 **20 Marks**

As a secondary approach, the developer requires a cash flow feasibility to determine the maximum that can be paid for the site assuming the following assumptions.

A part completed cash flow has been prepared with Development Costs exclusive of GST, interest, site cost/acquisition AND inclusive of Demolition and Tenant relocation costs.

- Required Target IRR of 25%.
- Building Efficiency of 80%.
- Effective Average Net Annual Rental of $600/m^2 plus GST.
- Car Parking Income is $1,180,000 net per annum plus GST.
- Investment Net Yield of 7.5%.
- Selling Costs of 3.0%.
- Acquisition Costs 7.0%.
- Demolition & Tenant relocation costs $1,000,000.
- 11 month construction program with sale expected during month 12.

Marks will be awarded for correct completion of cash flow as well as calculation of site value.

The Cash Flow worksheet must be submitted with answer booklet and Student Name on worksheet. See last page of exam for worksheet.

QUESTION 4 **25 Marks**

Part A 20 Marks

The developer has also contemplated the option of residential development available and the additional FSR. Advise the developer what they should pay for the site in this respect. The developer has provided the following assumptions.

- Council requires a building mix of 25% for 1 bedroom units, 50% for 2 bedroom units and 25% for 3 bedroom units.
- Building Efficiency is 80%.
- Sales analysis from the market reveals that:
  - 1 bedroom apartments have an average value of $\$12,000/m^2$
  - 2 bedroom apartments have an average value of $\$10,000/m^2$
  - 3 bedroom apartments have an average value of $\$9,000/m^2$
- GST liability on sales is expected at 7% of sale prices.
- Selling Costs (Agents Commission & Legals) are 3% of sales prices.
- The required Profit & Risk Factor is 25%.
- Development / Construction Costs are $80,000,000 excl. GST and include Demolition & Tenant relocation costs.
- Interest Charges are 9.0% per annum.
- Construction period is 12 months with no Lead in Period.
- Selling Period post Construction is 12 months.
- Draw Down Factor is 50%.
- Site Acquisition Costs are 7.0%

Part B 5 Marks

Briefly illustrate / discuss as to how accurate or not the GST Liability estimate of 7% was.

QUESTION 5 **20 Marks**

Any form of property development involves elements of RISK. Discuss in detail how RISK in property development can be managed / mitigated and how it can be measured accurately to allow a developer to reflect RISK in comparison to other investments or other projects. The answer should also include elements of RISK that a developer is likely to encounter.

END OF EXAMINATION

QUESTION 3 Cashflow

		TOTALS	0	1	2	3	4	5	6	7	8	9	10	11	12
Gross Realisation															
Less Selling Costs															
Net Realisation															
Development Costs		79,500,000		6,000,000	7,000,000	7,500,000	7,500,000	7,500,000	7,500,000	7,500,000	7,500,000	7,500,000	8,000,000	6,000,000	
Total Costs		79,500,000	**0**	**6,000,000**	**7,000,000**	**7,500,000**	**7,500,000**	**7,500,000**	**7,500,000**	**7,500,000**	**7,500,000**	**7,500,000**	**8,000,000**	**6,000,000**	
Cashflow Before Interest		-79,500,000	0	-6,000,000	-7,000,000	-7,500,000	-7,500,000	-7,500,000	-7,500,000	-7,500,000	-7,500,000	-7,500,000	-8,000,000	-6,000,000	
Interest	9.0%														
Cashflow After Interest															
Cumulative															