

OBAFEMI AWOLowo UNIVERSITY, ILE-Ife
FACULTY OF ENVIRONMENTAL DESIGN AND MANAGEMENT
DEPARTMENT OF ESTATE MANAGEMENT

Course Title: Feasibility and Viability Studies II (ESM 508) **Time Allowed:** 2 1-hours 30 Minutes

Instruction: Attempt two questions from each section: use separate booklet for each section

Section A

1. Your client GRACE Estates Ltd has requested your professional advice on the viability of taking a loan of N20M to purchase a shopping complex, No 105 Awolowo Road, Maitama Abuja. The full rental value of the property is N2 75M and is expected to be received three years in advance at the first instance and then to increase by 10% at every three years. Interest charges on debt finance are 15%. Determine the viability of the investment if the creditor is expecting a payback period of 9 years. (15marks)
2. A piece of three plots of land with latent value for office property has been offered for sale in Ikoyi, Lagos. The asking price for land is N1.5M per plot. The agent would collect 5% agency fees for the sale of land as well as 5% legal fees. Stamp duty on the land would be 2%. You are aware that the site can accommodate eight floors office block with a gross floor area of 22mx25m per floor. The full rental value of the office in the area is N5000/M². The freehold remunerative rate is 8%. Building costs for office space in the area are in the region of N900/M². Car parking and landscaping; N350,000.00. Professional fees; architect, 2%; QS, 2%; Land Surveyor, 2%; Structural Engineer, 2%, Electrical Engineer, 2%. The building is expected to take three years. Estimated contingencies, say 5%. The cost of capital (lending rate) in commercial banks is 20%. Agents fees and legal fees for the completed development are respectively 5% of rental income. Advertising cost is N125,000 for newspaper and other adverts. Calculate (i) the developer profit expressed as a percentage of total development cost, and as a percentage of total development value. (10 Marks) (ii) the development yield and the profit mark up (5). Advise your client based on the answer.
3. Discuss with illustrated examples, the following viability techniques for already developed properties