

7. MULTI CHOICE QUESTIONS ON INCOME APPROACH

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Q. 7.1	A valuation approach in which an indication of value of the property is provided by its income is called:	
	A. Profit approach	B. Residual approach
	D. Income approach	D. Cost approach
Q. 7.2	Income approach is suitable for valuation of:	
	A. Lessor's interest	B. Lessee's interest
	C. Income generating properties	D. All of the above
Q. 7.3	Which one is a method of valuation under income approach?	
	A. Rent capitalization method	B. Net Present Value
	C. Internal Rate of return	D. All of the above
Q. 7.4	Market value of the property can be estimated by capitalizing one year's income (usually 1 st year's income) by -----.	
	A. Rent capitalization method	B. Net Present Value
	C. Internal Rate of return	D. All of the above
Q. 7.5	Annual income as well as reversionary value are considered for estimation of market value of the property by ----- method	
	A. Rent capitalization method	B. Net Present Value
	C. Cost approach	D. All of the above
Q. 7.6	In which valuation method under income approach rate of interest for discounting is not prescribed?	
	A. Rent capitalization method	B. Net Present Value
	C. Internal Rate of Return method	D. All of the above
Q. 7.7	The discount rate at which the present value of the future cash flows of the investment equals is called -----	
	A. Correct Discount rate	B. Internal Rate of Return
	C. Equalizing rate	None of the above
Q. 7.8	The discount rate at which the algebraic sum of all future cash flows is zero is called -----	
	A. Correct Discount rate	B. Internal Rate of Return
	C. Equalizing rate	None of the above

Q. 7.9	In the following formula for IRR what R_1 stands for? $IRR = R_1 + \{(R_2 - R_1) \times N_1 / (N_1 - N_2)\}$	
	A. Lower number of years.	B. Higher number of years
	C. Higher discounting rate	D. Lower discounting rate
Q. 7.10	How rate of capitalization is selected?	
	A. By analyzing sales transactions in the area.	B. Interest paid by banks on term deposits
	C. Yield of Gilt edged securities	D. All of the above
Q. 7.11	A residential property has been sold for Rs.30,00,000.00 recently. Similar rental property in the area is available for Rs.7,500.00 / Month (Net of outgoings). If this income is assumed to be in perpetuity what is the rate of return on residential properties in the area?	
	A. 2.5 % p. a.	A. 3.0% p. a.
	C. 4.0% p. a.	
Q. 7.12	A residential property is yielding a net annual income of Rs.90,000.00. If the rate of return on similar properties in the area is 4 % p.a. what is the the market value of the property?	
	A. Rs.25,00,000.00	B. Rs.30,00,000.00
	C. Rs.22,50,000.00	D. None of the above
Q. 7.13	In case of freehold properties capitalization period is -----.	
	A. Economic life of the building	B. Remaining economic life of the building
	C. Actual physical life of the building	D. None of the above
Q. 7.14	Economic life an asset means period during which	
	A. The economic life of an asset is the number of years an asset is likely to remain in service for the purpose of cost-effective revenue generation.	B. Profitable life
	C. Life during which the asset will not require repairs.	D. None of the above
Q. 7.15	Net Annual Income means:	
	A. Gross Annual Income less Income Tax.	B. Gross Annual Income less Property Tax.
	C. Gross Annual Income less cost of annual repairs.	D. Gross Annual Income less annual outgoings

Q. 7.16	Which of the following items is not included in annual outgoings?	
	A. Municipal taxes	B. Annual repairs and maintenance
	C. Insurance	D. Individual electricity bill
Q. 7.17	Why rate of interest yielded by immovable properties is an important parameter by Real Estate valuers?	
	A. It is an important criterion for investors.	B. It varies very widely.
	C. It is a universal criterion for comparison of immovable properties	D. All of the above
	Before attempting MCQs on relationship between the Interest Yielded by residential properties and economic indices of other forms of investments (e. g. Sensex, Nifty, etc.) please note that time is shown on abscissa and interest yielded by residential and economic indices of other forms of investments properties are shown on ordinate.	
Q.7. 18	Parallel running Interest curve and curves of economic indices indicate:	
	A. Boom period of economy	B. Normal period of economy
	C. Recession period of economy	D. None of the above
Q. 7.19	Diverging interest curve and curves of economic indices indicate:	
	A. Boom period of economy	B. Normal period of economy
	C. Recession period of economy	D. None of the above
Q. 7.20	Converging interest curve and curves of economic indices indicate:	
	A. Boom period of economy	B. Normal period of economy
	C. Recession period of economy	D. None of the above
Q. 7.21	Economic recession period is characterized by:	
	A. Falling levels of demand	B. Very little or no investment
	C. Rising unemployment	D. All of the above
Q. 7.22	Economic boom period is characterized by:	
	A. Increased demand	B. Increased sales
	C. Increase productivity	D. All of the above
Q.7.23	Market value of partly developed property is estimated by:	
	A. Market value of building and land appurtenant to it) is estimated by capitalizing net annual income and adding market value (estimated by market approach) of the remaining land.	B. Capitalizing net annual income considering the property as fully developed / built up and deducting the cost of additional construction.
	C. Both of the above	D. None of the above

Q. 7.24	How market value of a property occupied by protected tenant(s) can be estimated by income approach?	
	A. Income approach will give highly inflated value. Hence not suitable.	B. By adopting interest rate derived by analyzing recent sale transactions of similar rent controlled properties in the area.
	C. Income approach will give very low value. Hence not suitable.	D. None of the above
Q. 7.25	Can the market value of an under utilized piece of land be estimated by income approach alone?	
	A. Yes	B. Depends on type of property
	C. No, help of some other method will be required to estimate market value of balance potential of the plot available for development	D. None of the above
Q. 7.26	What are the lessor's interests in an immovable property?	
	A. to receive lease rent fixed under the lease deed for the unexpired period of lease (Term Value).	B. to receive net income from the property when the property reverts back to him after termination of term of lease (Reversionary Value).
	C. All of the above	D. None of the above
Q. 7.27	Reversion means:	
	A. Repurchase of the property	B. Going back to the old use
	C. Right of the lessor to take possession of the leased property upon termination of the term of lease	D. None of the above
Q. 7.28	What is meant by reversionary value?	
	A. Value of the property to the lessee	B. Value of the property to the lessor
	C. Value of the lessor's interest when it reverts back to the lessor after termination of the term of lease.	D. None of the above
Q. 7.29	What is lessee's interest in a leasehold immovable property?	
	A. No interest in leasehold immovable property.	B. To enjoy profit rent
	C. To get premium (pagari) for vacating the property	D. None of the above

Q. 7.30	What is profit rent?	
	A. Rent received by subleasing the property.	B. Rent received by subleasing the property less income tax.
	C. Rent received by subleasing the property less property tax.	D. Difference between the Fair market rent and rent reserved under the lease.
Q. 7.31	How the market value of lessee's interest is estimated?	
	A. Rental income from the property is capitalized	B. Rental income for the unexpired period of lease is capitalized.
	C. Profit rent from the property is capitalized by using single rate Y. P.	D. Profit rent from the property is capitalized by using dual rate Y. P.
Q. 7.32	How term value of lessor's interest is estimated?	
	A. Rent reserved under the lease is capitalized for unexpired period of lease using dual rate Y. P.	B. Rent reserved under the lease is capitalized for unexpired period of lease using single rate Y. P.
	C. Rent reserved under the lease is capitalized for unexpired period of lease using single(remunerative) rate Y. P.	D. None of the above
Q. 7.33	How reversionary value of lessor's interest is estimated?	
	A. Net income after reversion is capitalized using single rate (remunerative) Y. P. in perpetuity.	B. Net income after reversion is capitalized using single rate (remunerative) Y. P. in perpetuity and deferred by the unexpired period of lease.
	C. Net income after reversion is capitalized using dual rate Y. P.	D. None of the above
Q. 7.34	Remunerative rate adopted for estimating lessor's interest is lower than the interest rate adopted for estimating lessee's interest because:	
	A. because lessee's interest in the property is more than that of the lessor	B. because lessee's investment in the property is more than that of the lessor
	C. interest of lessor is considered more secured as compared to the interest of the lessee.	D. None of the above
Q. 7.35	Whether sum of lessor's interest and lessee's interest is equal to the market value of the freehold property?	
	A. Technically no.	B. Practically yes
	C. Both of the above are correct	D. None of the above

Q. 7.36	A lessee is enjoying a profit rent of Rs.1,80,000 / Month which is likely to continue for next 30 years. What will be the market value of lessee's interest in the property if dual rate Y. P. for a remunerative rate of 8% p. a. and accumulative rate of 3% p. a. for 30 years is 9.8991?
	A. Rs.18,00,000.00
	B. Rs.2,13,82,000.00
	C. Rs.3,50,00,000.00
	D. None of the above
Q. 7.37	A lessor had leased his plot 30 years ago for 60 years for a ground rent of Rs.30,000.00 / Month. What is the term value of lessor's interest in the property if Y. P. _(30yrs, 6%) is 13.7648.
	A. Rs.4,13,000.00
	B. Rs.49,55,328.00
	C. Rs.60,00,000.00
	D. None of the above
Q. 7.38	Rent reserved under lease is Rs.30,000.00 / Month but its fair market rent is Rs.35,000.00 / Month. The property will revert back to the lessor after 30 years. Estimate the reversionary value of the property if the remunerative rate of interest is 6% p. a.
	A. Rs.70,00,000.00
	B. 60,00,000.00
	C. Rs.12,19,000.00
	D. None of the above
Q. 7.39	Rent reserved under lease is Rs.30,000.00 / Month for a plot admeasuring 2,000 Sq. Meter. Prevailing market rate of the land is Rs.35,000.00 / Sq. Meter. The unexpired period of lease is 30 years. Estimate the reversionary value of the property if the remunerative rate of interest is 6% p. a.
	A. Rs.60,00,000.00
	B. Rs.7,00,00,000.00
	C. Rs.1,21,87,700.00
	D. None of the above
Q. 7.40	A fund formed by setting aside a recurring annual amount for a given period of time to recoup capital invested in an asset is called:
	A. Sinking fund
	B. compound sum
	C. annuity
	D. None of the above
Q. 7.41	A project requires an investment of Rs. 10 lakhs and its estimated Net Present Value (PV) is Rs.16 lakhs. What is its profitability index?
	A. 1.00
	B. 2.6
	C. 1.6
	D. None of the above
Q. 7.42	Which one of the following best defines the Annual Sinking Fund?
	A. is an annual sum required to be invested to amount to Rs.1.00 in a specified number of years.
	B. is an annual sum required to be invested to recover the capital invested in a specified number of years.

	C. is an annual sum required to be invested to replace the asset after a specified number of years.
	D. None of the above
Q. 7.43	Under rent capitalization method, value of the property increase with ----- ---
	A. increase in property tax
	B. increase in the rate of capitalization
	C. decrease in rate of capitalization
	D. None of the above
Q. 7.44	In case the unexpired period of lease is too large the reversionary value would be -----
	A. Zero
	B. Negligible
	C. Negative
	D. None of the above
Q. 7.45	Which of the following is not a factor having a bearing on the market rent of the subject property?
	A. City
	B. Location
	C. Annual turnover
	D. None of the above
Q. 7.46	Rent specified in the lease deed is called;
	A. Sitting rent
	B. standard rent
	C. Contractual rent
	D. None of the above

Q. 7.47	Which of the following is not correct about surrender of lease?
	A. Premature termination by lessee
	B. Unilateral termination by lessee
	C. Termination with consent of lessor
	D. Surrender after expiry of lease period
Q. 7.48	A project will be acceptable if its Net Present Value is -----
	A. Negative value
	B. A zero value
	C. A positive value
	D. None of the above
Q. 7.49	When can a project with zero NPV be acceptable to the investors?

	A. No, it can not be acceptable
	B. When it is a charitable project.
	C. When the acceptable IRR is equal to the discount rate.
	D. None of the above
Q. 7.50	Which of the following approaches is used by valuers to determine present value of future benefits to get an indication of market value of a property?
	A. Market approach
	B. Cost approach
	C. Income approach
	D. None of the above
	Market approach
Q. 7.51	Valuing a property by estimating its Net Present Value is known as ----- -.
	A. Rent capitalization method
	B. Discounted Cash Flow method
	C. Market approach
	D. None of the above
Q. 7.52	In which type of lease revaluation of lessee's interests can be undertaken?
	A. Financial lease
	B. Operating lease
	C. Occupational lease
	D. None of the above
	D. Income approach