

Part V. Required Problem (20 points)

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4. Chapter: Part V. Required Problem (20 points)

1. Part V. Required Problem (20 points) Questions

4.1.1. In the following situation:

[table]

;Today (time 0) ; Next Year (Yr...

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In the following situation:

[table]

;Today (time 0) ; Next Year (Yr.1) ;

Probability ; 100% ; 50% ; 50%

Value of Developed Property ; \$1000; \$700; \$1300

Development Cost (exclu land); \$800 ; \$800; \$800

[/table]

Suppose no further value after next year, construction is instantaneous, the riskfree interest rate is 4%, the expected return (OCC) on unlevered investments in developed property is 7.5%, what is the value today of the land? And should development be undertaken now or should you wait.

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