SUMMARY

Determining a suitable discount rate to use in a feasibility study is one of the important procedures in analysing the attractiveness (or otherwise) of an investment proposal. Apparently some practitioners use an arbitrary figure as a starting point and then add in a risk premium commensurate with the perceived investment risk. Others use a variety of methods to estimate the cost of capital and thus the discount rate. While the discount rate is only one of the many variables assumed in the preparation of a feasibility study, it is nonetheless important that a reasonably accurate and appropriate figure is used so that a valid business decision can be made.

This dissertation attempts to survey and document the various methods available, and also the prevailing local practice, to see if there is one common method which is the best method or the most popular method for the determination of the cost of capital for property investment feasibility studies.

A literature research is conducted in conjunction with a survey on the common methods used by local practitioners to determine the cost of capital. Arising from these, a hypothesis is then formulated and a series of 'objectives' drawn up to test the hypothesis.
The information collection process is carried out in three parts. Firstly, a literature review is carried out to assess what the various methods are. Secondly, a "case studies" approach is carried out by interviewing professionals in the industry and also by studying five projects.

The practices and views of six professionals involved in feasibility studies are documented as case studies. These six people play different roles in the decision-making process and their views are expected to provide a broad range of perceptions on this subject. It is intended that their collective views be representative of a range of the practices in the industry. The five project case studies range from residential to industrial projects. They are intended to give a breadth in terms of the range of project types. Thirdly, a postal survey is carried out by sending questionnaires to professionals in the industry.

The information collected is then analysed in Chapter Four. The series of 'objectives' drawn up in Chapter Two is addressed with the information collected.

In Chapter Five, the results and findings are presented to test the hypothesis. There appears to be an absence of a method which is commonly perceived to be the most suitable method in determining the cost of capital for all feasibility studies of property
investment proposals. The general view is that the cost of capital is only one of the many assumptions in feasibility studies. Other assumptions include the rate of inflation, occupancy rate, take-up (sales) rates, construction costs, estimated expenses, provisions for design contingencies, and so on.

The hypothesis, that there is no one method of determining the cost of capital which is the most appropriate method for all feasibility studies of property investment proposals, is supported. The broad implications of this dissertation are discussed in the final chapter and a recommendation for further research in this and related subjects is made.