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UNIVERSITI TUN HUSSEIN ONN MALAYSIA

**FINAL EXAMINATION
SEMESTER I
SESSION 2014/2015**

COURSE NAME : THE VALUATION FOR SPECIALISED
PROPERTY

COURSE CODE : BPE 33503

PROGRAMME : 3BPD

EXAMINATION DATE : DECEMBER 2014/JANUARY 2015

DURATION : 3 HOURS

INSTRUCTION : ANSWER **FOUR (4)** QUESTIONS
ONLY

THIS QUESTION PAPER CONSISTS OF **TWELVE (12)** PAGES

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Q1 SHAB Sdn. Bhd. owns a timber concession in the Terengganu Tengah forest area. The concession is divided into four blocks, A, B, C, and D and the harvesting plan are on a rotation silviculture principle.

From a survey report done by a timber consultant, it was found that the volume of loggable timber taking a 45 cm dbh is as shown in Table **Q1(i)** and **Q1(ii)** below:

TABLE Q1(i) : The volume of loggable timber

Block	Lofting period per cycle	Land area (ha)	Estimated volume (M3)
A	1 year	120	4,960
B	1 year	136	5,710
C	1 year	140	6,020
D	1 year	145	5,870
Total		541	

The compositions of timber species found in the concession are as shown in Table **Q1(ii)** below:

TABLE Q1(ii) : The compositions of timber species

Timber species	Block A	Block B	Block C	Block D
Merbau	32%	30%	30%	35%
Keruing	38%	37%	35%	30%
Kempas	13%	18%	19%	15%
Mengkulang	10%	8%	11%	10%
Other medium hardwoods	7%	7%	5%	10%

It is also estimated that the cost of extracting the timber in relation to the gross revenue will be as shown in Table **Q1(iii)** below:

TABLE Q1(iii) : Costs estimations for timber extraction

Concession premium	: 541 ha @ RM500 per ha
Deposit	: RM20,000 per block
Pre-felling operating costs (surveys and road construction)	: 7.2%
Log handling costs (felling, bucking, skidding, yarding, loading. Scaling, road maintenance, log-yard, delivery)	: 30%
Administrative overheads	: 5%
Interest on working capital and equipment	: RM750,000 @10%
Royalty payable at an average of	: RM10 per cubic metre of extracted timber
Cess tax	: RM10 per cubic metre of extracted

The existing market price of timber is as shown as Table **Q1(iv)** below:

TABLE Q1(iv) : The market price of timber species

Timber species	Price (RM/m3)
Merbau	794
Keruing	587
Kempas	491
Mengkulang	528
Other medium hardwoods	412

Based on the available data above, SHAB has requested you to:

- (a) Value the timber concession for financing purpose. Suitable assumption may be made in the absence of relevant information and you are required to state all assumptions clearly in the footnotes. (20 marks)
- (b) State reason(s) of the chosen valuation method based on answer in **Q1(a)**. (5 marks)

Q2 You have been requested by a bank to value petrol filling and service station for foreclosure purpose. It is a 30 years state lease owned by SHA Limited of which 6 years have expired. The station has been in operation for 5 years. The site measures 60.95 meters wide and 45.75 meters depth. The station is located along one of the busy streets of a big town.

The station comprises a single storey building with a car service annexed. The building has a spandex steel roof, brick walls and concrete floor finished with ceramic and mosaic tiles. The building accommodates a 23.22 sq. metres office, 37.16 sq. metres sales area and 9.29 sq. metres toilets. The service area is 185.8 sq. metres.

The forecourt and its canopy have a combined area of 185.8 sq. metres and houses two-pump islands which consist of seven (7) unleaded pumps and one (1) leaded pump. Other facilities include one (1) open air diesel pump, one (1) air pump, one (1) logo signs and four (4) underground tanks each with a capacity of 15,000 litres.

The construction cost of this kind of station is as shown in Table **Q2(i)**.

TABLE Q2(i) : The construction costs of the petrol filling and service station

	RM
Office space	968 psm
Sales area	753 psm
Service area	538 psm
Toilet area	753 psm
Underground tanks	5,000 each
Two logo signs and air pump	30,000
Forecourt, underground pit, cables piping and tarmac	150,000
Petrol pumps	10,000

Petrol sales

- Unleaded grade was sold at an average of 2,600,000 litres per annum;
- Leaded grade was sold at an average of 1,800,000 litres per annum;
- Diesel grade was sold at an average of 800,000 litres per annum.

The wholesale purchase prices from the dealer and the retail price charged to customer average are as shown in Table Q2(ii) below:

TABLE Q2(ii): The wholesale and retail prices

Petrol grade	Wholesale sale price (RM/ litre)	Retail price (RM/ litre)
Unleaded	1.05	1.15
Leaded	0.95	1.05
Diesel	0.70	0.80

Sales of Goods

Sale of goods from the shop counter averages a gross profit of RM50,000 per annum.

Rental Service Area

The service area is sub-let a trade tie up agreement on the following terms:

- Servicing goods should be purchased from the petrol shop;
- The rents payable for the 1st 3 years is @ RM2,500 per month;
- The rents payable for the 2nd 3 years is @ RM3,000 per month.

Operating Expenditure

The average operating expenditure is as shown in Table Q2(iii) below:

TABLE Q2(iii) : The average operating expenditure

	RM/annum
1) Business Operating Expenditure	
• Salary, Bonus EEPF, Socso	60,500
• Business insurance	1,250
• Water	1,500
• Electricity	3,000
• Business license	1,500
• Audit and Secretarial fee	5,000
• Interest on Stock RM 100,000 Cash RM 30,000	10%
• Administration expenses	12,000
2) Property Outgoings	
• Repairs (External & Internal)	6,000
• Fire insurance	1,000
• Assessment rate	8% on A.V of RM80,000
• Quit Rent	4,000
• Management	6,000

An analysis of the market revealed that commercial sites were transacted in the region of RM 646 - RM 861 per sq. metre.

Based on the available data provided above, you are required to:

- (a) Value the subject property for sales purpose. (20 marks)
- (b) State reasons of the chosen valuation method based on answer in Q2(a). (5 marks)

Q3 Golden Cinema Bhd. owns a freehold cinema property located on the fourth floor of a shopping complex. The cinema comprises three cineplexes with a total floor area of 800 sq. metres. The cinema is of modern design, air-conditioned and equipped with acoustic system. Each Cineplex has 100 seats, well carpeted, equipped with a projector together with ladies' and gents' toilets. The cinema has an office, ticket booths and a snack kiosk. The snack kiosk is let to an operator at a monthly rental of RM800.00.

Golden Cinema Bhd. has let the property to Prime View Sdn. Bhd. on a fourteen (14) year lease, six (6) years ago at an annual rental of RM120,000 net.

The analysis of the last three (3) years operating accounts is shown in Table Q3(i).

TABLE Q3(i) : The operating accounts for the last 3 years

Show time	Total seats	Ticket Price (RM)	Average Occupancy (%)
3.00 pm	300	8.00	45
6.00 pm } daily	300	8.00	65
9.00 pm }	300	8.00	80
Saturday midnight	300	9.00	70
Sunday matinee	300	3.50	80

The entertainment tax on ticket sales is 20%. At every show the gross receipts from trailer advertisements is RM800.

Operating Expenditure:

The average operating expenditure is as shown in Table Q3(ii).

TABLE Q3(ii) : The average operating expenditure

1) Business Operating Expenditure
<ul style="list-style-type: none"> • Salary, wages, bonuses, EPF/SOCSO are RM135,000 per annum • Electricity @ RM750 per month • Water @ RM400 per month • Local films rental @ RM15,000 per month • Foreign films rental @ RM45,000 per month • Operating license @ RM1,500 per annum • Advertisements @ RM2,000 per month • Projector maintenance @ RM1,000 per month • Business insurance @ RM2,000 per annum • Secretarial and audit fee @ RM15,000 per annum • Management @ RM1, 500 per month • Interest on capital RM400, 000 @ 12%
2) Outgoings
<ul style="list-style-type: none"> • Repairs (external/internal) @ RM15, 000 per annum • Fire insurance @ RM1, 000 per annum • Management @ RM500 per month • Assessment rates @ 13% on A.V. of RM100, 000 • Quit rent @ RM5, 000 per annum • Service charge @ RM7 per sq. metre per month

The operator bears all outgoings.

Based on the available data, you are required to:

- (a) Value the subject property for the freeholder's interest. (8 marks)
- (b) Value the subject property for the leaseholder's interest. (12 marks)
- (c) State reasons of the chosen valuation method based on answer in **Q3(a)** and **Q3(b)**. (5 marks)

Q4 Lot No 567, Mukim of Ampang, District of Hulu Langat, State of Selangor is located within the Perang Forest Reserve. It is an on-going quarry and is located fronting Jalan Kuari and is about 25 kilometers from the City of Kuala Lumpur.

Particulars of the property are as follows:

Land area	: 100 acres
Tenure	: Leasehold for 30 years expiring on 31/12/2032
Market Value of plant and machinery	: RM12,000,000
Granite reserve	: 188,000,000 tonnes as at December 2010

Production of aggregates in tonnes for the past five (5) years is as shown in Table **Q4(i)**.

TABLE Q4(i) : The production of the aggregates

Types	2006	2007	2008	2009	2010
Aggregate 3/8"	28,000	44,000	50,000	56,000	29,000
Aggregate 3/4"	630,000	657,000	372,000	468,000	660,000
Aggregate 1"	23,000	33,000	43,000	50,000	23,000
Aggregate 2"	67,000	68,000	30,000	58,000	67,000
Aggregate 6" x 9"	45,000	47,000	39,000	46,000	45,000
Crusher runs	199,000	238,000	156,000	226,000	199,000
Quarry dust	213,000	252,000	149,000	222,000	213,000

The average prices of crushed stones over the last five (5) years are as shown in Table Q4(ii).

TABLE Q4(ii) : The average prices of crushed stones

	2006	2007	2008	2009	2010
Average price (RM/tonne)	15.04	13.56	14.52	12.38	13.80

The average production cost per tonne is as shown in Table Q4(iii).

TABLE Q4(iii) : The average production cost

Types	RM/tonne
Blasting	0.82
Transportation	1.30
Royalty	1.15
Crushing	3.40
Administration	0.45

Buildings on site are as shown in Table Q4(iv).

TABLE Q4(iv) : Buildings on site

Buildings	Construction	Floor area (sf)
Office	2-storey of permanent construction of fair condition	8,200
Workshop	Open sided of steel portal frame of fair condition	12,000
Explosive store	1-storey of permanent construction of fair condition	560
Canteen	1-storey of permanent construction of fair condition	1,200
Guardhouse	1-storey of semi-permanent construction of fair condition	600

Comparable vacant land for alternative use in the area is RM60,000 per hectare. It is assumed that the operating permit is renewable until the rock deposits are exhausted.

By using an appropriate method of valuation, you are requested to:

- (a) Value the subject property for loan security purpose (20 marks)
- (b) State reasons of the chosen valuation method based on answer in Q4(a). (5 marks)

Q5 You have been approached by the SB Group, Ltd., the owner of SHAB golf course to value their properties for financing purposes.

The subject property consists of an 18-hole private country club which includes a swimming pool (four lanes), outdoor tennis courts (four), a children's playground – with wading pool, and ancillary golf course amenities like a driving range and putting green. The subject property is treated as being owned in fee simple, the actual ownership is structured around and Limited Liability Corporation (LLC). Currently the subject property has around 228 golf memberships (of those 110 are equity members) and 55 social members. The club's goal is to have 250 golf memberships. A major aspect of the club is the Clubhouse.

The clubhouse is masonry constructed, in stages (circa 1940-1970). The golf course has 18 holes, some with multiple tees. It is well designed and excellently maintained with a double row irrigation system. It does not appear to be any safety issues associated with the golf course design. Land area is of 151.44 acres.

Transaction data on the similar properties are as shown in Table **Q5(i)**.

TABLE Q5(i) : The transaction data pf the similar properties

Details	Sale no. 1	Sale no. 2	Sale no. 3	Sale no. 4	Sale no. 5	Sale no. 6
Location	SL Golf Course	DC Golf Course	Park District	RA Golf Course	RM Golf Course	SR Golf Course
Sales Price	3,190,000	3,000,000	1,400,000	4,127,000	3,000,000	3,000,000
Date of Sale	Jan-99	Aug-99	Sept-00	Nov-99	Oct-00	May-99
Land Area (acres)	208	144.31	50	160	173.14	237
Slope Rating	115 (ave)	122	113	127	109	121
Course Rating	69.5 (ave)	72.4	68	72	67.4	71
Yardage	6,558	6,755	3,200	6,859	5,991	6,103
Driving Range	No	Yes	No	Yes	No	No
Fees	19.00 w-day 26.00 w-end	19.00 w-day 25.00 w-end	8.00 w-day 9.00 w-end Cart: 6/ person	33.00 / 38.00	23.00 / 30.00 (cart included)	32.00 / 39.00 (carts included)
Comments	A 27-hole located: southern suburbs. 1971 vintage.	An 18-hole located: southern suburbs. 1972 vintage.	A 9-hole located: southern suburbs. 1989 vintage.	An 18-hole located: northeast suburbs. Constructed in 1990	A 27-hole. Constructed in 1930.	An 18-hole Constructed in 1994.

The unaudited 2009 and 2010 income and expense statements for the subject property are as Table Q5(ii) and Table Q5(iii).

TABLE Q5(ii) : The unaudited income for the year 2009 and year 2010.

Income	12/31/2010 (RM)	12/31/2009 (RM)	Ave. increase / decrease (%)
Income fees	95,227	70,710	34.7%
Member Dues -Golf	958,233	705,591	35.8%
Member Dues -Social	58,665	47,588	23.3%
Green fees	124,487	105,083	18.5%
Cart Rentals	226,002	215,589	4.8%
Range Fees	31,945	1,100	2804.1%
Convenient Cart -Food	5,987	5,731	4.5%
Convenient Cart -Beverage	3,198	2,697	18.6%
Club Storage	30,288	478	6236.4%
Locker Annual Rental	60,180	3,375	1683.1%
CCC Sales	7,891	9,017	-12.5%
Trail Fees	5,050	4,216	19.8%
Pool Guest fees	580	348	66.7%
Merchanise Sales	127,710	131,615	-3.0%
Dining Room Sales	260,202	244,602	6.4%
Dining Beverage Sales	63,500	67,898	-6.5%
Banquet Room rental	30,122	17,745	69.7%
Banquet Food Sales	248,674	164,175	51.5%
Banquet Beverage Sales	127,208	106,699	19.2%
Banquet Food - Tax Exempt	50,713	18,582	172.9%
Banquet Beverage - Tax Exempt	11,672	4,031	189.6%
Tournament Greens Fees	82,890	79,330	4.5%
Tournament Cart Rentals	17,253	18,531	-6.9%
Tournament Food Sales	32,153	39,536	-18.7%
Tournament Beverage	13,050	15,907	-18.0%
Halfway House Food Sales	42,116	35,650	18.1%
Halfway House Beverage Sales	3,191	3,315	-3.7%
Miscellaneous Income	54,166	57,347	-5.5%
Total Income	2,772,353	2,176,486	27.4%

TABLE Q5(iii) : The unaudited operating expenses for the year 2009 and year 2010.

Operating Expenses	12/31/2010 (RM)	12/31/2009 (RM)	Ave. increase / decrease (%)
Property Tax	141,533	132,547	6.8%
Insurance	52,346	26,184	99.9%
General & Administrative	264,162	208,384	26.8%
clubhouse Maintenance	310,143	176,006	76.2%
Food & Beverage	409,078	344,588	18.7%
Membership	8,084	11,394	-29.1%
Legal & Professional	10,903		
Greens Fees	151,314	118,580	27.6%
Course Maintenance	487,197	369,266	31.9%
Carts	91,365	91,761	-0.4%
Range	3,459	1,417	144.1%
Locker Room	81,343	61,652	31.9%
Pro Shop	13,921	18,853	-26.2%
Pool	26,260	29,995	-12.5%
Tennis	2,852	2,737	4.2%
Cost of Sales (merchandise, food, etc)	413,784	346,148	19.5%
Total Expenses	2,467,744	1,939,512	27.2%

The capitalisation rate of interest of the subject property is 10%.

Based on the available data above, you are requested to:

- (a) Value the subject property by using the profit method of valuation (12 marks)
- (b) Value the subject property by using the comparable method of valuation (10 marks)
- (c) Suggest your own opinion of value derivation based on both methods above. (3 marks)

- Q6** You have been requested by the BMS Sdn Bhd to value a modern purpose-built 4 star provincial hotel for insurance purpose. The hotel which is wholly owned by the SHAB Bhd, is having 150 letting bedrooms with well planned, flexible accommodation including restaurant, bar, conference rooms and leisure club with 300 members. Easily accessible just off a motorway junction and with good car parking facilities. Reliant on corporate business and conference trade during the week with some leisure based trade at the weekends.

Advertised tariff :	Double	RM120.00 per night incl. VAT
	Single	RM95.00 per night incl. VAT

Other relevant data for the subject property are assumed as follows:

- 1) Room occupancy 85%
- 2) Double occupancy 45%
- 3) Single occupancy 75%
- 4) Average achieved room rate at 75% of an advertised tariff
- 5) Room revenue at 45% of total revenue
- 6) The comparable equated yield of the Hotel is at 10%.
- 7) Equated yield of the Hotel is at 15%.
- 8) A renewal fund for the replacement of fixtures, fittings and furnishings necessary to maintain the adopted level of trade is at 10% of total room revenue.
- 9) The Rateable value of the Uniform Business rates is assumed at RM120, 000
- 10) Income and expenditure will increase by 5% per annum
- 11) The residual value in a DCF may account for up to 25% of the total value of the 10th year.

In deriving to the market value, the trading projections and actual accounts should be ideally prepared in accordance with the current version of the Uniform System of Accounts. This categorises accounts into:

- 1) Revenue
 - 2) Departmental Costs and Expenses
 - 3) Total Operated Department Income
 - 4) Undistributed Operating Expenses
 - 5) Income Before Fixed Charges (IBFC)
- (a) Value the subject property for Insurance Purpose by applying the Earning Multiplier Approach. (10 marks)
- (b) Value the subject property for Insurance Purpose by applying the DCF approach. (15 marks)

- END OF QUESTION -