



UTHM

Universiti Tun Hussein Onn Malaysia

UNIVERSITI TUN HUSSEIN ONN MALAYSIA

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

COURSE NAME : ADVANCED REAL ESTATE VALUATION
COURSE CODE : BPE 12503
PROGRAMME : 1 BPD
EXAMINATION DATE : JUNE 2015/JULY 2015
DURATION : 3 HOURS
INSTRUCTION : ANSWER ALL QUESTIONS

THIS QUESTION PAPER CONSISTS OF **SIX (6)** PAGES

- Q1** Mr Ali is the owner of an office block with the full rental value of which is RM28,000 per annum on full repairing and insuring (FRI) terms.

Fourteen years ago Mr Ali let the whole office building to Mr Bala on a 40-year lease at rent of RM10,000 per annum on full repairing and insuring (FRI) terms without a rent review.

Mr Bala sub-let to Mr Chai 6 years ago at a rent of RM18,000 per annum on full repairing and insuring (FRI) terms of 25 years without rent review.

Acting between the parties, you are required to:

- (a) Value the interests of Mr. Ali, Mr Bala and Mr. Chai. (12 marks)
- (b) Calculate the prices that Mr. Ali and Mr. Chai should ask for their interests if Mr. Bala wishes to become the owner in possession of the office block. (8 marks)

- Q2** Mr. Tawil (a Leaseholder) occupies a No. 6 High Street Shop and holding a lease from Mr. Lebai (a Freeholder) at a rent of RM2,000 per annum on full repairing and insuring (FRI) terms with 8 years remaining.

Mr. Tawil requires a new 40-year lease, starting immediately and proposes to carry out improvements to the premises in 3 years' time at an estimated cost of RM12,000 which will increase full rental value (FRV) by RM2,500 per annum.

As a condition of the present lease, Mr. Lebai requires that Mr. Tawil pays a premium of RM1,000 in 5 years' time. It is proposed that under the new lease Mr Tawil should pay a premium of RM3,000 immediately and RM5,000 after 20 years.

No.7 High Street Shop is an identical property and has recently been sold on a 10% basis. It has just been let on a 21-year lease at a rent of RM6,000 per annum on full repairing and insuring (FRI) terms with a premium of RM15,000 payable at the start of the lease by the lessee.

It is agreed that the rent for No.6 High Street Shop should increase by 50% halfway through the proposed term.

Acting between the parties, you are required to:

- (a) Evaluate the minimum rent per annum that Mr. Lebai will accept for a new lease proposal. (8 marks)
- (b) Evaluate the minimum rent per annum that Mr. Tawil can offer for a new lease proposal. (8 marks)
- (c) Assess the average rent per annum that both parties are more likely to agree for a new lease proposal. (4 marks)

Q3 A 50-bed hotel in Batu Pahat, Johor has an average annual occupancy of 50% and charges, on average, RM70.00 per room per night. The premises are held on a freehold basis and the hotel is part of a small chain and must contribute towards head office overheads.

Data information extracted from hotel accounts are shown in **Table Q3(a)**.

Table Q3(a): Detail information of income and expenditure

Income	RM	Expenditure	RM
Accommodation	638 750	Purchases during the year	45 000
Bar	45 000	Wages	200 000
Restaurant	25 000	Utilities	3 500
		Laundry & Cleaning	2 500
		Business rates	36 000
Value on 1 Jan	105 000	Advertising	1 000
Value on 31 Dec	95 000	Contents insurance	1 250
Value of fixtures, fittings, Furniture and equipment	250 000	Repairs & Renewals	2 500
		Building insurance	1 000
		Contribution to HQ costs	2 000
		Operator's remuneration	50 000

By considering all data above, you are required to carry out a Profit Method of valuation to:

- (a) Determine a the total value of business for the hotel. (15 marks)
- (b) Explain the appropriateness of the Profit method in valuing this type of property compare to other methods of valuation. (5 marks)

Q4 You are requested to value a piece of agricultural land and details of the subject land is as Table **Q4(a)**:

Table Q4(a): Details of the subject land

Lot No.	6138
Mukim	Parit Raja, District of Batu Pahat, State of Johor
Land Area	4.4778 acres
Existing usage	Agriculture/ kampong land Currently planted with mixed fruit trees (coconut, papaya, pineapple etc)
Category of land use under Title	Agriculture use
Other restriction	Nil
Date of transaction	5th January 2006
Other info	There are two kampong houses erected on the land belongs to the owner. 1. A single storey kampong house measuring 20 X 50 ft. 2. A single storey detached house constructed with reinforced concrete measuring approximately 20 X 60 ft.

Recent sales evidence of the similar agricultural lands within the Mukim Parit Raja as listed in Table **Q4(b)** below:

Table Q4(b): Recent sales evidence of the similar properties

Lot no	Land area (Acres)	Land Tenure	Transaction Date	Transaction Price		Remarks
6133	3.59	Leasehold	2/1/2005	RM12,000/-	1/1	Old rubber tree,, Not well maintain.
2534	4.9	Freehold	5/12/2006	RM325,000/-	1/1	Kampong land. Occupied and planted with fruit trees
5810	4.007	Freehold	6/6/2006	RM214,000	1/1	Kampong land, planted with fruit trees
7395	3.001	Freehold	23/11/2006	RM400,000	1/1	Vacant land

It is also noted that:

1. The construction cost for kampong house is approximately RM80/- psf.
2. The construction cost of the reinforced concrete detached house is approximately RM150/-psf

Based on data provided:

- (a) Define the comparison method of valuation and when it is used. (5 marks)
- (b) Value lot 6138 for sale purpose. Detail assumptions, adjustments that support your answer shall be clearly stated. (15 marks)

Q5 You are requested to value a piece of land proposed for a typical housing scheme of 100 acres which has the following details:

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|-----|--|-------------------------|
| 1) | Proposed Development | Selling Price (RM/Unit) |
| | • 500 units single storey terrace houses | 75,000 |
| | • 500 units double storey terrace houses | 95,000 |
| | • 300 units single storey semi detached | 125,000 |
| 2) | Construction Cost | Cost (RM/Unit) |
| | • Single storey terrace houses | 30,000 |
| | • Double storey terrace houses | 42,000 |
| | • Single storey semi detached | 50,000 |
| 3) | Infrastructure
100 acres @ RM3.00 per sq. feet
(including oxidation ponds, sewerage reticulation, water reticulation, roads and drains, electricity, telecom, earthworks, TNB sub-stations, monsoon drains, etc.). | |
| 4) | Professional fees @ 10% of construction cost of building and infrastructure. | |
| 5) | Management and administration cost @ 3% of construction cost and infrastructure. | |
| 6) | Sales and advertising @ 2% of total sales realisation. | |
| 7) | Legal fees @ 2% of total sales realisation. | |
| 8) | Statutory contributions say RM125,000. | |
| 9) | Site supervision costs say 36 months @ RM5,000 per month. | |
| 10) | Contingencies @ 5% of items 2 & 3. | |
| 11) | Interest on finance @ 50% of development costs @ 12% per annum for three years. | |
| 12) | Pre tax profit is assumed @ 30%. | |

Notes and assumptions:

- Take up rate for the proposed housing scheme is 100%.
- Proposed project duration of three (3) years.
- Interest rate @ 12 % per annum.

Based on data provided above, you are required to:

- (a) Explain the basis of the Residual Method of valuation and when it is used. (5 marks)
- (b) Value the development site for finance purpose. (15 marks)

- END OF QUESTIONS -