

CONFIDENTIAL



UNIVERSITI TUN HUSSEIN ONN MALAYSIA

**FINAL EXAMINATION
SEMESTER II
SESSION 2015/2016**

COURSE NAME : ADVANCED REAL ESTATE
VALUATION

COURSE CODE : BPE 12503

PROGRAMME CODE : BPD

EXAMINATION DATE : JUNE / JULY 2016

DURATION : 3 HOURS

INSTRUCTION : ANSWERS **ALL** QUESTIONS

THIS QUESTION PAPER CONSISTS OF **FIVE (5)** PAGES

CONFIDENTIAL

- Q2** (a) A twenty-year lease of an industrial unit is to be assigned. The lease provides for only one rent review, after ten years, and has an unexpired term of four years. The tenant is responsible for internal repairs only. Current rent payable is RM55,000 per annum.

From comparable it is estimated that the market rent would be RM85,000 per annum, if the property were let on FRI terms. Nearby properties let at market rent show a leasehold yield of 10 per cent assuming a tax rate of 28 per cent and gross annual sinking fund interest at 4.25 per cent. Market evidence indicates freehold all risks yield (ARY) of similar properties is 8.5 per cent

Acting for both parties, you are required to:

Value the subject property for freehold interest and leasehold interest

(10 marks)

- (b) Your client, Madam AB wants to purchase a shop investment let at a market rent of RM80, 000 per annum. Her target equated yield is 10 per cent. The probable growth rate in rental income is estimated to be 3 per cent per annum compound.

Using the Discounted Cash Flow (DCF) method, you are required to:

Assess the investment worth to the client of the freehold interest assuming five yearly rent reviews.

(10 marks)

- Q3** A property developer is interested in acquiring the freehold interest in a site measuring 0.2 hectare that is for sale at a price RM3.25 million. Town planning permission has been granted for the erection of 5,000 sq. m gross external area (GEA) of offices on the land to a maximum height of six storeys. This will provide a gross internal area (GIA) of 4,750 sq. m and a net internal area (NIA) of 3,750 sq. The local planning authority has imposed a requirement that no more than 40 car parking spaces are provided. The overall size of these car spaces, allowing for turning room, is to be 9 metres by 3 metres, and is to be provided on the surface of the site, with any remaining land area being landscaped.

Site clearance and preparation works at a cost of RM100, 000 are required before construction work can commence. Construction costs are anticipated to be RM2,000 per sq. m (GIA) for the building itself, RM150 per sq. m for the car park area and RM100 per sq. m for the remainder of the site for landscaping and ancillary works. The development project is expected to take 21 months from start to completion, full letting of the finished building and investment sale of the freehold. Promotion costs and a contingency sum will amount to RM250, 000. Market rental for completed building is estimated at RM300 per sq. m (net) per annum. Freehold all risks yield (ARY) for investment of this type are currently 6 per cent. The developer can borrow funds at 8.5 per cent.

Other costs are estimated as follows:

- Architect, QS and other construction professional fees: 12 per cent of construction costs
- Agents and legal on letting: 10 per cent of maret rent
- Agents and legal on investment sale: 3 per cent of Gross Development Value (GDV)
- Site purchase costs: 6 per cent.

Base on the data above, you are required to:

Calculate the developer's risk and profit margin if the land is purchased at the asking price

(20 marks)

Q4 The subject property is a public house having a bar and catering trade and available for purchase as a 'going concern'. Information obtained on the property, having thoroughly analysed the last five years of business accounts for the premises, is as follows:

- Gross receipts from bar and food sales plus machine income = RM225, 000 per annum.
- Purchases (of drink and food, etc.) = RM85, 000 per annum.
- Working expenses (such as heating, lighting, cleaning, employees' wages and insurance premiums, but excluding business rates) = RM65,000 per annum.
- Current market value of proprietor's fixed assets (furniture, fittings, fixtures and equipment) = RM35, 000.
- Current value of stock held = RM7, 000.
- Proprietor's cash on premises and in bank = RM4, 500.
- Usual 'share' of profits retained by proprietor for similar businesses nearby = 50 per cent excluding interest on capital, which is separately deducted.
- Current business rates payable = RM9, 000.
- All risks yield is judged to be 8 per cent.

Comparable show 'goodwill' is commonly valued at 1.5 YP for this type of business and the total capital value, including goodwill and all assets, of other 'Public houses' usually is equivalent to gross receipts \times 1.25 to 1.5 YP but can be as high as 2 YP.

Based on data provided above:

Calculate the freehold open market value of the subject property purchase purpose.

(20 marks)

- Q5** (a) A local authority is revaluing its property assets. As part of this exercise, it needs to calculate the freehold value of a social services day centre. The building was constructed 30 years ago and now requires some essential repair and modernisation works at an estimated cost of RM125, 000. The gross internal floor area of the premises is 1, 000 sq. m. The building is on a site measuring 65 by 28 metres. Adjoining property is predominantly residential, open space or small shops. Site value has been estimated at RM2.5 million per hectare, construction costs for the building at RM900 per sq. m. Gross Internal Area (GIA) and external works at RM60, 000, excluding fees.

Value the freehold interest as a fixed asset for the local authority.

(10 marks)

- (b) A leaseholder occupies an office property under a ground lease with an unexpired term of twenty years at a fixed ground rent of RM10,000 per annum. From comparable, current market rent of the office building is estimated at RM200,000 per annum. The lessee wishes to buy the freehold interest from the landlord. Freehold all risks yields (ARY) are 8 per cent. The lessee pays tax at 40 per cent and can obtain 3 per cent net annual return on a sinking fund.

Calculate the price that the landlord is likely to agree if the lessee proceeds with the purchase of the subject property

(10 marks)

-END OF QUESTIONS -