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UNIVERSITI TUN HUSSEIN ONN MALAYSIA

**FINAL EXAMINATION
SEMESTER II
SESSION 2016/2017**

COURSE NAME : ADVANCED REAL ESTATE
VALUATION

COURSE CODE : BPE 12503

PROGRAMME CODE : BPD

EXAMINATION DATE : JUNE 2017

DURATION : 3 HOURS

INSTRUCTION : ANSWER ALL QUESTIONS

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THIS QUESTION PAPER CONSISTS FIVE (5) PAGES

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Q1 The Residual Method and the Profits Method are two techniques used by the valuers for the determination of Market Value of a property.

- (a) The residual method is used where there is potential for development, redevelopment or refurbishment.

Discuss **FIVE (5)** elements of cost that must be considered for undertaking the residual method.

(10 marks)

- (b) The profits method is used in a range of case where any of the other approaches would be unlikely to be satisfactory. It is used by valuers specializing in, and with wide experience of the particular type of business activity under consideration.

Differentiate **FOUR (4)** situations where the principle may be used to assess rental or capital values.

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(10 marks)

Q2 Real estate is one of many avenues offering investment opportunities, and direct investment in property requires substantial sums of money. Therefore, there is a need for investors to get the opinion of the real estate consultant on the value of any investments before making any decision. As a valuer, you are required to give your opinion and advice on Market Value of the Following Real Estate Investment.

Calculate the following cases with detailed explanation and assumptions made to arrive to the market value.

- (a) A retail shop premises in a main shopping street were leased three years ago at RM29,000 per annum on a Full Repairing and Insuring (FRI) terms on a 15 year-lease with rent reviews at the end of every fifth year. The current rental value of similar property is RM33,000 per annum. There is evidence of sales to support a yield of 7 per cent for retail shop premises in this area.

(10 marks)

- (b) A modern freehold office block were leased on a Full Repairing and Insuring (FRI) for a term of 15 years granted four years ago at a rent of RM50,000 per annum. The lease contains provisions to review the rent at the end of the seventh year of the lease. The premises are occupied by a government department.

The Current rental value on the lease with five-year reviews would be RM60,000. The investment market is fairly active; recent sales have taken place to show a yield of 8 per cent.

(10 marks)

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Q3 Charisma Property & Co., A developer wishes to acquire a site of 10 acres in a provincial city where outlining planning permission is waiting for approval for development of double storey terraced houses and single storey terraced houses. There is a steady demand for houses in this area.

The following are information for the project development:

Types of development:	Selling Price
- 10 units Double storey Terraced houses	RM250,000 /unit
- 50 units Single storey Terraced houses	RM150,000 /unit

Pre Development Cost

- Site preparation : RM100,000.00 per hectare
- Survey cost : RM300 per unit
- Cost of individual title : RM250 per unit
- Cost of building plan approval : RM220 per unit
- Cost of additional premium (conversion from agriculture to Buuilding) : RM50,000 per hectare

Construction Cost:

- Double storey Terraced houses RM88,000 /unit
- Single storey Terraced houses RM56,000/unit

Infrastructure cost

- RM10,000 per/unit of houses

Contribution to government agency

- RM2,000 per unit



Professional fees

- 5% from Construction cost & Infrastructure Cost

Management fee

- RM10,000 per month for a period of completion of project 24 months.

Cost of Estate Agency for selling of houses

- 1% from GDV (Gross Development Value)

Cost of finance 50% from construction and infrastructure cost.
for 1 year @ 12% per year.

Developer profit's and Risk: 20% from GDV.

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Advise the company as to maximum price they can offer for the land, based on information given and you should support the answer with explanations.

(20 marks)

Q4 “The cost approach provides an indication of value using the economic principle that a buyer will pay no more for an asset than the cost to obtain an asset of equal utility, whether by purchase or by construction”.

International Valuation Standards 2013

(a) Explain the circumstances in which the cost method of valuation is adopted in the valuation of properties.

(10 marks)

(b) Discuss the **THREE (3)** elements of obsolescence when accounting for depreciation in the calculation of the market value of a property using the cost method.

(10 marks)

Q5 You are required to value a ABC Petrol station located in the town of Batu Pahat. Average profit and loss account for 3 years gathered from site visits to the petrol station are as follows:

Profit from Sales

- Ron 95 : 18,000 litres @ RM0.06 per litre
- Ron 97 : 800 litres @ RM0.05 per litre
- Diesel : 5,000 litres @ RM0.04 per litre

Profit from Workshop

- Car washes 8 cars @ RM8.00 per car per day
- Car services 8 cars @ RM100 per car per day

Cost of goods and spare parts for workshop

- RM100,000

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Profit from sales in ABC mini-market

- Total Sales : RM120,000 per year

Cost of purchase for goods: RM70,000

Expenditure items for managing business

- Management : RM60,000
- Utility bills : RM18,000
- Salary, PERKESO, EPF for staffs : RM110,000
- Promotion : RM5,000
- Licence : RM1,000

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• Entertainment	: RM2,000
• Stationary	: RM1,200
• Telefon and internet	: RM3,600
• Bank Charge	: RM500
• Audit	: RM1,000
• Cost of finance	: RM10,000
• Spare part	: RM8,000

Outgoings Expenditure

• Repairs and maintenance	:RM20,000
• Rates	:RM18,000
• Annual rent	:RM500
• Insurans	:RM5,000

Tenant's share at 35% and cost of finance @ 10%.

Based on the information given, determine the Net Income and the Market Value of the ABC Petrol station above using Profits Method.

(20 marks)

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-END OF QUESTIONS-