

## UNIVERSITI TUN HUSSEIN ONN MALAYSIA

## **FINAL EXAMINATION SEMESTER I SESSION 2017/2018**

COURSE NAME

: SPECIAL PROPERTY VALUATION

COURSE CODE

: BPE 33503

PROGRAMME CODE

: BPD

EXAMINATION DATE : DECEMBER 2017 / JANUARY 2018

**DURATION** 

: 3 HOURS

INSTRUCTION

: ANSWER ALL QUESTIONS



THIS QUESTION PAPER CONSISTS OF EIGHT (8) PAGES

Mr BMS, the freeholder of an area of land containing limestone has been approached by the lessee, who wishes to purchase the freehold interest of mining site. The lessee is the operator of a quarry that is capable of producing 400,000 tonnes p.a. and has proven reserves of 5 million tonnes with possible further reserves of 3 million tonnes. The expected output over the next four years will be 100,000; 200,000; 250,000 and 350,000 tonnes respectively, building up to full production of 400,000 tonnes in the fifth year. Approximately 2 hectares (ha) of surface land are occupied for the purpose of processing limestone. The use of royalty value is considered appropriate in this case because the value to the operator is being established. The terms of the permit granted are as **Table Q1**:

Table Q1: The terms of permit granted

Total area included in lease	50 hectares			
Rent for surface land occupied	RM250 per ha/p.a.			
Minimum rent	RM50,000 p.a			
Shortworkings(1) clause of Royalties	First 200,000 tonnes pa at 40p per tonne.			
	Remainder at 35p per tonne			
Term	25 years unexpired with break clause if			
	minerals become exhausted. Restoration:			
	area to be restored by the operator to			
	agricultural use			

## Note:

Shortworkings are where the royalties are less than the minimum rent due for any year and some leases allow this shortfall (shortworkings) to be recovered from 'overworkings' in subsequent years. Overworkings are the royalties in excess of the minimum rent.

Based on the available data:

(a) Advise Mr BMS as to the value of his freehold interest in the 50 hectares (assuming there are shortworkings to date of RM20,000).

(15 marks)

(b) Discuss **TWO** (2) broad categories as the basis of valuation for mineral type of property.

(10 marks)



The Golden Movie Theatre is the owner and operator of 5 cineplexes located on the fifth floor of Mega shopping complex in town centre. It occupies a total floor area of 15,950 square feet. Each cineplex has 170 to 200 seats built with acoustic and sensor round system, well carpeted and air-conditioned. The movie theatre complex is equipped with four projectors and projection screens, an office and ticket counter and a snack kiosk. The movie theatre has been in operation for about 10 years and the property is freehold. The Golden movie theatre has sublet the snack kiosk at RM5,000 per month.

An analysis of the last 3 years trading accounts is as shown in **Table Q2a**:

Table Q2a: Trading accounts of the Golden movie theatre for the last 3 years

Show time Monday-Sunday (5	Seating Capacity Cineplex			Ticket Price (RM)	Average Occupancy Rate (%) Cineplex						
shows per cineplex	1	2	3	4	5		1	2	3	4	5
12.00 p.m	170	170	180	200	200	10.00	43	45	47	44	40
3.00 p.m	170	170	180	200	200	10.00	30	48	46	50	43
6.00 p.m	170	170	180	200	200	10.00	52	48	53	55	58
9.00 p.m	170	170	180	200	200	10.00	61	65	58	64	62
Midnight	170	170	180	200	200	10.00	60	72	70	72	66

A 25% entertainment tax is levied on the ticket sales. Revenue from advertisement trailer is RM500 for every show.

The business operating expenditure is as shown in **Table Q2b**:

Table Q2b: The business operating expenditure of the Golden movie theatre

Nos	Items	Operating Expenses (RM)
1	Salary, wages, bonuses, EPF, Socso	187,000 p.a
2	Electricity	2,100 per month
3	Water	400 per month
4	Local films rental	62,000 per month
5	Foreign films rental	85,000 per month
6	Operation license	10,000 p.a
7	Advertisement	4,000 per month
8	Business insurance	8,000 per month
9	Projectors maintenance	1,500 per month
10	Audit and secretarial fee	18,000 p.a
11	Management	36,000 p.a
12	Interest on working capital	420,000 @ 10% p.a



The amount of outgoings spent by the Golden cinema is as shown in **Table Q2c**:

Table Q2c: The amount of outgoing spent by the Golden Movie Theatre

Nos	Items	Outgoings (RM) per annum	
1	Repairs (Internal & External)	100,000	
2	Fire insurance	10,000	
3	Assessment rates	15,000	
4	Quit rent	95,000	
5	Management	8,000	
6	Service charge	105,000	

Based on the available data above:

(a) Value the subject property for balance sheet purpose. Suitable assumption may be made in the absence of relevant information and you are required to state all assumptions clearly in the footnotes.

(15 marks)

(b) Discuss **FIVE (5)** factors to be considered by the valuer in respect to valuation for movie theatre type of property.

(10 marks)

- Q3 A general hospital in a city centre is housed in a listed building built in the mid 19th century. A valuation is required for inclusion in the health authority's annual accounts. The valuer considers that because of the specialised nature of the building there are no relevant sales or lettings of hospital buildings. A Depreciated Replacement Cost approach (DRC) is used for comparing the actual asset with a modern equivalent asset. The characteristics and relevant information of a modern equivalent hospital within the locality are summarized below:
  - Cost of new building of 10,000m2 @ RM2,000/m2
  - Design and other professional fees 2,600,000
  - Finance Costs @ base plus 2% on 50% costs over 3 years
  - Land cost 2.5 hectares @ RM500,000
  - Finance cost of land 3 years at base plus 2%
  - Economic life of modern equivalent: 60 years
  - Remaining economic life of actual building: 20 years
  - Depreciation on straight line basis: 66%
  - Additional depreciation:
    - o for cost of maintaining listed building: 5%
    - o inefficient layout: 5%



Based on data provided:

(a) Value the subject property for financial statement purpose by using the Depreciated Replacement Cost approach (DRC).

(15 marks)

(b) Explain the tasks that the valuer needs to take into consideration in the process of establishing a modern equivalent hospital for the subject property.

(10 marks)

Q4 BMS Resort Bhd, a registered owner, has instructed you to value their property for internal management purpose. The subject property has a land area of 150 hectares. The subject property is strategically located in the northern part of Ipoh and enjoying a better accessibility which is about 5km from exit north-south express highway and about 18km from the nearest local Airport.

The clubhouse is designed to the standards for 4-star country club facilities and as shown in **Table Q4a**:

Table Q4a: The club house facilities

Building	Area	Description	
Golf club 2 floor:	MFA: 1785.19 sq.m	Roof: skylight / concrete	
Includes restaurant, pro shop,	MFA: 1927.86 sq.m	Ceiling : concrete	
changing room, office and other		Wall: brick wall	
facilities.		Floor: ceramic/cement/carpet	
Driving range and gym:	MFA: 268.36 sq.m	Roof: pan tile	
2 floors which is a permanent	AFA: 665.38 sq.m	Ceiling: asbestos-free	
building.		Wall : brick wall	
		Floor : cement / carpet	
Half way house:	MFA: 49.02 sq.m	Roof: pan tile	
1 permanent building 3 units	AFA: 172.50 sq.m	Ceiling: asbestos-free	
		Wall: brick wall	
		Floor: cement	
Outdoor Tennis Court	MFA: 1449.81 sq.m	<ul> <li>Sport linoleum floor finishing.</li> </ul>	
		<ul> <li>Netting surrounding the court to</li> </ul>	
		prevent the ball from going out.	
Swimming Pool	Volume : 63,1333.2 m <sup>3</sup>	Anti-slip tile for the floor	
		furnishing.	

The subject property consists of putting greens that contain 27-holes namely 9-holes Valley Nine courses, 9-hole River Nine courses, and 9-hole Waterfall Nine courses as well as 12 ponds, 27 elevated tees, 55 sand traps (bunkers), sprinkler system 500 head and parking bays.



The detail of membership fees is as shown in **Table Q4b**:

Table Q4b: Membership fees

Types of Memberships	Price (RM)
1. Individual Member	35,000
2. Nontransferable Individual Member	16,800
3. Corporate Member:	
• Golfing:-	
- 1 <sup>st</sup> nominee	39,000
- 2 <sup>nd</sup> nominee	21,000
- 3 <sup>rd</sup> nominee	20,000
- 4 <sup>th</sup> nominee	18,000
- 5 <sup>th</sup> to 12 <sup>th</sup> nominee	17,000 each
<ul> <li>Leisure and Sporting Member:</li> </ul>	
- 1 <sup>st</sup> to 12 <sup>th</sup> nominee	12,000 each
4. Resident Member	25,000
5. Term Member	5,000
6. Leisure and Sporting Member	12,000
7. Resident Leisure and Sporting Member	8,500

Recent transaction data on the similar properties are as shown in **Table Q4c**:

Table Q4c: Sale evidences of the similar property

	Sale No 1	Sale No 2	Sale No 3
Lot no	3855	2339	1283
Location	Kg Bali, 25 km from the subject property	Kampar, 22 km from the subject property	Manong, 30 km from the subject property
Sales Price	RM 8,280,440	RM19,991,339	RM4,719,137
Date Of Sale	20.12.11	20.3.2012	6.6.2011
Land Area	63.958 ha	135.575 ha	40.485 ha
Tenure	99 year lease expired on 5.4.2093	Freehold	Freehold
Encumbrances	Charged by XYZ bank	Nil	Nil
Accessibility	Road frontage	Road frontage	Road frontage
Category of land use	Agricultural	Agricultural	Agricultural
No of holes	9-hole	18-hole	9-hole



The audited 2015 and 2016 income and expense statements for the subject property are as shown in **Table Q4d** and **Table Q4e**:

Table Q4d: The audited income for the year 2015 and year 2016

	Income	31.12.2016 (RM)	31.12.2015 (RM)
1	Income fees	105,227	80,710
2	Member Dues -Golf	968,233	715,591
3	Member Dues -Social	68,665	57,588
4	Green fees	134,487	115,083
5	Cart Rentals	236,002	225,589
6	Range Fees	41,945	11,100
7	Convenient Cart -Food	15,987	15,731
8	Convenient Cart -Beverage	13,198	12,697
9	Club Storage	40,288	10,478
10	Locker Annual Rental	70,180	13,375
11	CCC Sales	17,891	19,017
12	Trail Fees	15,050	14,216
13	Pool Guest fees	10,580	10,348
14	Merchandise Sales	137,710	141,615
15	Dining Room Sales	270,202	254,602
16	Dining Beverage Sales	73,500	77,898
17	Banquet Room rental	40,122	27,745
18	Banquet Food Sales	258,674	174,175
19	Banquet Beverage Sales	137,208	116,699
20	Banquet Food - Tax Exempt	60,713	19,582
21	Banquet Beverage - Tax Exempt	21,672	14,031
22	Tournament Greens Fees	92,890	89,330
23	Tournament Cart Rentals	27,253	28,531
24	Tournament Food Sales	42,153	49,536
25	Tournament Beverage	23,050	25,907
26	Halfway House Food Sales	52,116	45,650
27	Halfway House Beverage Sales	13,191	13,315
28	Miscellaneous Income	64,166	67,347



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Table Q4e: The audited operating expenses for the year 2015 and year 2016

	Operating Expenses	31.12.2016 (RM)	31.12.2015 (RM)
1	Property Tax	151,533	142,547
2	Insurance	62,346	36,184
3	General & Administrative	274,162	218,384
4	Clubhouse maintenance	320,143	186,006
5	Food & Beverage	419,078	354,588
6	Membership	18,084	21,394
7	Legal & Professional	20,903	15,500
8	Greens Fees	161,314	128,580
9	Course Maintenance	497,197	379,266
10	Carts	101,365	101,761
11	Range	13,459	11,417
12	Locker Room	91,343	71,652
13	Pro Shop	23,921	18,853
14	Pool	36,260	29,995
15	Tennis	12,852	2,737
16	Cost of Sales (merchandise, food, etc.)	423,784	346,148

The date of valuation is taken to be the date of inspection which was on 31<sup>st</sup> January 2017. The capitalisation rate of interest in the subject property is at 10%.

## Based on the available data above:

(i) Value the subject property for sale purpose. Suitable assumption may be made in the absence of relevant information and you are required to state all assumptions clearly in the footnotes.

(15 marks)

(ii) Discuss **FIVE (5)** factors to be considered by the valuer in respect to the valuation for leisure trading type of property.

(10 marks)



- END OF QUESTIONS -