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Universiti Tun Hussein Onn Malaysia

UNIVERSITI TUN HUSSEIN ONN MALAYSIA

**FINAL EXAMINATION
SEMESTER I
SESSION 2018/2019**

COURSE NAME : SPECIAL PROPERTY VALUATION
COURSE CODE : BPE 33503
PROGRAMME CODE : BPD
EXAMINATION DATE : DECEMBER 2018 / JANUARY 2019
DURATION : 3 HOURS
INSTRUCTION : ANSWER ALL QUESTIONS

THIS QUESTION PAPER CONSISTS OF SIX (6) PAGES

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- Q1** On the basis of Reinstatement, you are required to value the following machines on the basis that they will continue to be used in the business of producing plastic products. The machines required for valuation are as below:

Machine 1. One unit Automatic Plastic Injection Moulding Machine

Brand name : Chen Gsong, Model JM88 MK111-6
Serial No : 94793
Date of manufacture : 2014
Date of installation : 8.1.2015
Country of origin : Taiwan

Machine 2. One unit Air Compressor

Brand name : Cremers, Model VK10
Serial No : C834121
Date of manufacture : 2016
Date of installation : 15.1. 2017
Country of origin : Netherlands

Additional information gathered are as follows:

Machine 1 has an estimated economic life of 15 years. The cost ex-factory is RM35,000.00. Duties, sales tax, insurance and freight charges are estimated to be RM14,000.00. The cost of installation and commissioning is another RM2,300. Based on the economic life span of 15 years and the residual value of 10%, the depreciation rate per annum on the declining balance table is 14%.

Machine 2 has an estimated economic life of 5 years. The cost ex-factory is RM40,000.00. Duties, sales tax, insurance and freight charges are estimated to be RM5,500.00. The cost of installation and commissioning is another RM1,600. Based on the economic life span of 5 years and the residual value of 10%, the depreciation rate per annum on the declining balance table is 37%.

Relevant assumptions may be made to support your valuation and all calculations must be explicitly shown.

- (a) Calculate the value for both of the machines for the basis of indemnity. (12 marks)
- (b) Discuss the concept of Open Market Operations and the effect on values of plant and machinery. (8 marks)
- (c) Differentiate between obsolescence and depreciation in relation to the useful life of plant and machinery. (5 marks)

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- Q2** BMS Plantation Berhad owns a freehold estate land. The land area is 1,000 acres and the topography of the land is undulating in nature. About 20 acres of the land are reserved for internal service road. The estate can be accessed via secondary road and is located about 20 kilometers from the nearest town. The estate is in good maintenance and management.

Types of plantations and productions are as tabulated in **Table Q2(a)** and **Q2(b)**.

Table Q2(a): Types of plantations

Block	Acreage (Acre)	Crops	Year planted
A	250	Rubber	1995
B	230	Rubber	2000
C	250	Palm Oil	2004
D	250	Palm Oil	2012

Table Q2(b): Production of plantations

Block	Production		
	2017	2016	2015
A	200,000 kg	210,000 kg	210,000 kg
B	230,000 kg	230,000 kg	235,000 kg
C	23,750 tonnes	3,750 tonnes	3,700 tonnes
D	2,000 tonnes	1,990 tonnes	1,870 tonnes

The market price of rubber is RM3.20 per kilogram and its production cost is 40% of the market price. The market price of palm oil is RM300 per tonne and its production cost is RM75 per tonne.

Comparable sale evidences of the similar vacant land for rubber and palm oil are RM10,000 per acre and RM15,000 per acre respectively.

The economic life of the rubber tree is 30 years and palm oil tree is 25 years.

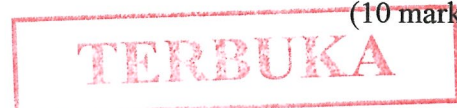
- (a) Value the subject property for balance sheet purpose. Suitable assumption may be made in the absence of relevant information and you are required to state all assumptions clearly in the footnotes.

(15 marks)

- (b) Section 214A (1) National Land Code 1965 states that “Estate land cannot be transferred or disposed of to 2 or more persons unless consent or approval is obtained from the Estate Land Board”.

Discuss this statement in respect to the fair market value of estate land property compared to other agricultural holdings.

(10 marks)



- Q3** A petrol filling and service station located along the main road in a particular town. The site measures 51 meters wide and 46.71 meters deep. The station has been in operation for 6 years with the lease another 24 years remaining. The station comprises of a single storey building with a car service annex. The building has a spandex steel roof, brick walls and concrete floor finished with a ceramics and mosaic tiles. The building accommodation has 20 sq.m. office, 40 sq.m, sales area and 190 sq.m. toilet area. The service area is 195 sq.m. The forecourt and its canopy with an area of 190 sq.m., houses eight pump islands which consist of 7 unleaded pumps and one leaded pump. Other facilities include one open air diesel pump, 2 air pumps, 2 logo signs and 4 underground tanks each with a capacity of 15,000 litres.

The construction cost of this kind of station is as tabulated in **Table Q3(a)**:

Table Q3(a): The construction cost of the petrol filling station

Description	RM
Office space	1,076 psm
Sales area	860 psm
Service area	538 psm
Toilet area	753 psm
Underground tanks	20,000 each
Two logo signs and air pump	30,000
Forecourt, underground pit, cables piping and tarmac	180,000
Petrol pumps	5,000 each

An analysis of the last 3 years trading accounts revealed the following:

Petrol sales

- Unleaded grade was sold at an average of 3,300,000 litres per annum
- Leaded grade was sold at an average of 1,500,000 litres per annum
- Diesel grade was sold at an average of 1,100,000 litres per annum

The wholesale purchase price from the dealer and the retail price charged to customer average as follows:

Table Q3(b): Price and cost of petrol by grade

Petrol grade	Wholesale sale price (RM/ litre)	Retail price (RM/ litre)
Unleaded	1.25	1.35
Leaded	1.15	1.25
Diesel	0.80	0.90

Sales of goods

Average sales value of RM2,000 per day with 40% profit.

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Car Service

Average service of 10 cars per day at a service rate of RM50 per car

Car wash

An average of 15 cars per day at the rate of RM7 per car

Operating Expenditure

The average operating expenditure is as tabulated in **Table Q3(c)**.

Table Q3(c): Detail of operating expenses

Description	RM/annum
1) Business Operating Expenditure	
- Salary, Bonus, EPF, Socso	143,000
- Business insurance premium p.a	1,650
- Water p.a	1,980
- Electricity p.a	3,300
- Business license p.a	1,650
- Audit and Secretarial fee p.a	5,500
- Interest on Stock RM 165,000	
Cash RM 55,000	10%
- Administration expenses	13,500
2) Property Outgoings	
- Repairs (External & Internal) p.a	8,800
- Fire insurance premium p.a	1,320
- Assessment rates p.a	25,300
- Quit Rent p.a	2,706
- Management p.a	6,600

An analysis of the recent market transactions revealed that freehold commercial sites of this nature were sold in the region of RM860 – RM1,076 p.s.m

- (a) Advise your client on the annual value of the subject property for rating purpose.
(15 marks)
- (b) Outline factors that are affecting the value of trading property.
(10 marks)

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- Q4 (a)** A valuation is required for a freehold factory situated on contaminated land. The current freehold industrial site has legal responsibility for the contamination. The current rental value is at RM800,000 per annum and the 15-year lease has 2 years remaining. The existing tenant does not intend to renew the lease and remediation is deemed necessary. Remedial works have been estimated at RM2,000,000 and a period of 1 year is needed to complete the work. Other additional costs that incorporated for remedial works are costs of EIA and LQS, which are estimated at RM9,000 and RM5,000 respectively. Further, cost of finance at 8% for 6 months repayment term needs to be included in the overall costs of remedial works. The all risks yield for uncontaminated comparable property investments is 9.5%. The open market rental value is at RM850,000 per annum.

Calculate the market value of the freehold factory site based on the contaminated conditions.

(10 marks)

- (b)** A valuation is required for the air space (rights) interest in 40,000 square feet of railroad terminal land located within the central business district of a large city. The appropriate air rights improvement is a 16-storey office building having an area at its base of 40,000 square feet. The entire city block of the subject is 360,000 square feet. All losses, costs and charges attributable to air rights construction as compared to conventional ground level construction of subject proposed building are summarized as:

• Viaducts and elevated sewers	= RM418,800
• Extra building costs	= RM138,000
• Capitalised net income	= RM627,000

An estimated land value by comparison is RM100 per square foot.

Appraise the market value of air space (rights) interest for the subject property.

(9 marks)

- (c)** List **FIVE (5)** factors that are affecting value of air space (rights) interest.

(5 marks)