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UNIVERSITI TUN HUSSEIN ONN MALAYSIA

**FINAL EXAMINATION
(TAKE HOME)
SEMESTER II
SESSION 2019/2020**

COURSE NAME	: ADVANCE REAL ESTATE VALUATION
COURSE CODE	: BPE 12503
PROGRAMME	: BPD
EXAMINATION DATE	: JULY 2020
DURATION	: 24 HOURS
INSTRUCTION	: ANSWER ALL QUESTIONS OPEN BOOK EXAMINATION

THIS QUESTION PAPER CONSISTS OF SEVEN (7) PAGES

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TERBUKA

Q1 As a Property Consultant, you are requested to give professional advice to one property developer that wishes to acquire a potential development site of 10 acres located adjacent to Bandar Tun Hussein Onn Development scheme in Johor Bahru.

The proposed site is zoned for mixed development use and currently pending planning approval from Dewan Bandaraya Johor Bharu for development of double-storey terraced houses and single-storey terraced houses.

The Johor State Government has set the Bumiputra Housing Policy guidelines of 30% of the units to be developed should be given a 15% discount on the sale price per unit. The following are information given for the proposed project development:

Types of development:	Estimated Selling Price
• 10 units Double-storey Terraced houses	RM500,000 /unit
• 50 units Single-storey Terraced houses	RM300,000 /unit
• 24 units single-storey Terraced houses Type Rumah Mampu Biayai	RM120,000/unit
Pre-Development Cost/Preliminary Cost	Cost
• Site preparation	RM100,000.00 per acre
• 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 Building)	RM50,000 per acre
Construction Cost:	Cost
• Double-storey Terraced houses	RM88,000 /unit
• Single-storey Terraced houses	RM56,000/unit
• Single-storey Terraced houses (type Rumah Mampu Biayai)	RM48,000/unit
Infrastructure cost	RM10,000 per/unit of houses
Contribution to government agency	RM2,000 per unit
Professional fees@ (from Preliminary cost, Construction cost & Infrastructure Cost)	5%
Legal, Advertising and Management fee	1% of GDV

Contingencies Cost @ (of infrastructure and construction cost)	5%
Cost of finance @	12% per year.
Developer's profit and Risk @	20%.

- (a) Calculate using the highest and best use approach the Market Value of the land. (15 marks)
- (b) Advise the maximum price that the company can offer for the land. (5 marks)
- (c) Explain;
- (i) The importance of cost of finance in Q1(a) in any property development with calculation.
- (ii) The importance of present value concept in arriving to Market Value of the land in Q1(a), shown in calculation and justified (5 marks)

- Q2** (a) Your client wishes that you estimate the market value of a freehold retail warehouse. The unit is situated in a modern purpose-built retail park, close to Bandar Batu Pahat. The property extends to 4,000 sq.m gross internal area (GIA). The unit was let 3 years ago on a standard institutional lease, with 5 yearly upwards only rent reviews, FRI, for a term of 20 years. The current rent passing is RM65 psm.

Comparable evidences in the same area as follows:

- A unit extending to 2,200 sq.m on the same park has just been let at RM178,000 p.a., on the FRI terms. The unit has also just been sold on the open market for RM2,800,000.
- A unit extending to 4,000 sq.m on the same park has just been let at RM260,000 p.a., on the FRI terms. The unit has also just been sold on the open market for RM3,700,000.

- (i) State the importance of Return on Investment (ROI) while adopting Investment Method of valuation in determining the market value. (2.5 marks)
- (ii) Calculate a market value of the unit using a traditional investment valuation method. Make necessary assumptions to complete the valuation and justify. (10 marks)
- (b) You have been asked to prepare a market valuation for sale purposes of Hotel Del Luna restaurant. This Michelin award winning restaurant is located at the prime area of a busy central business district in Kuala Lumpur.

The average stock for the restaurant and lounge is RM6,000 and cash in hand is approximately RM3,500 at any one time. Fixtures and fittings are valued at RM45,000.

You have analysed a set of audited accounts and determine the fair maintainable operating profit (FMOP) as follows:

REVENUE	
• Food	RM311,472.00
• Coffe house/lounge	RM158,687.00
	RM470,159.00
COST OF SALES	
• Food	RM105,900.48
• Coffee house/lounge	RM53,953.58
	RM159,854.06
WORKING EXPENSES	
• Wages	RM117,539.75
• Rates	RM12,035.91
• Energy Consumption (TNB)	RM12,153.02
• Property Insurance	RM5,335.85
• Telephone and Internet	RM4,029.03
• Postage	RM1,235.00
• Marketing	RM7,528.00
• Operating machines and motor expenses	RM1,235.00
• Legal & professional costs	RM4,312.89
• Mortgage interest	RM11,052.50
• Depreciation	RM27,215.94
• Laundry & cleaning	RM2,513.00
• Sundries	RM4,194.23
	RM210,590.76

Advise your client on the value should the business be sold as operational entity by fully explaining your approach to valuation and clearly stating any additional assumptions you have made.

(12.5 marks)

-END OF QUESTIONS-

APPENDIX

FINAL EXAMINATION

SEMESTER / SESSION : SFMFSTER 2 / 2019/2020 PROGRAMME CODE : BPD
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VALUATION MATHEMATIC FORMULA SHEET

Present Value of £1 p.a. in Perpetuity (Years' Purchase in Perpetuity)

$$\frac{1}{i}$$

Present Value of £1 p.a. in Perpetuity (in advance)

$$\frac{1}{i} \cdot (1+i)$$

Years Purchase (YP) of £1 p.a. in Perpetuity (in advance)

$$\frac{1 - (1+i)^{-n}}{i}$$

Annual Sinking Fund (ASF)

$$\frac{i}{(1+i)^n - 1}$$

i = accumulation rate, SF

YP Dual Rate (tax (t) adjusted)

$$\frac{1}{i + \left[ASF \cdot \left(\frac{1}{1-t} \right) \right]}$$

Notation for above Formulae

i = remuneration rate

t = tax rate

FINAL EXAMINATION

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Internal Rate of Return (approximation)

$$IRR = r_L + \left[(r_H - r_L) \times \left(\frac{NPV_L}{NPV_L - NPV_H} \right) \right]$$

- IRR = internal rate of return
 r_L = lower trial rate
 r_H = higher trial rate
 NPV_L = net present value at the lower trial rate
 NPV_H = net present value at the higher trial rate

Implied Annual Growth Rate (IAGR) Formula

$$(1 + g)^m = \frac{\left(\frac{1}{k} \right) - \left[\frac{1 - (1 + e)^{-m}}{e} \right]}{\left(\frac{1}{k} \right) \times (1 + e)^{-m}}$$

- k = all-risks yield
 e = equated yield
 m = number of periods between each rent review
 g = implied annual growth rate (IAGR)