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UNIVERSITI TUN HUSSEIN ONN MALAYSIA

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

COURSE NAME	:	APPLIED VALUATION
COURSE CODE	:	BPF 32903
PROGRAMME CODE	:	BPD
EXAMINATION DATE	:	JULY 2020
DURATION	:	24 HOURS
INSTRUCTION	:	ANSWER **ALL** QUESTIONS **OPEN BOOK EXAMINATION**

THIS QUESTION PAPER CONSISTS OF **THREE (3)** PAGES

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Q1 The occupying lessee of a factory is considering the reorganisation of the manufacturing process carried out in the premises. This will involve expenditure in the region of RM100,000 and, therefore, before committing himself to this, the tenant requires greater security of the tenure.

The present lease, originally for 21 years, was granted 17 years ago, on full repairing insuring terms, with provision for upwards only 7-year rent reviews. The present rent passing is RM78, 000 per annum and the current rental value of the property, on the same terms, is RM90,000 per annum.

Market evidence indicates that, all risks yields of freehold interests are assumed in the region of 9% to 12% whereas, remuneration yields for leasehold interests are of 10% with tenant pay tax at 35% and can obtain 3% of net sinking fund rate.

The landlord is undecided whether to sell his interest to the tenant or to grant him a new lease. You have been approached by both landlord and tenant to;

(a) Calculate the premium that is required by the landlord for the surrender of the present lease and a renewal for 21 years on similar terms.

(6 marks)

(b) Calculate the premium that the tenant is willing to pay for the surrender of the present lease and a renewal for 21 years on similar terms.

(6 marks)

(c) Assess the rent that is required by the landlord on renewal of the lease, assuming no premium is paid and all other terms are as in the existing lease.

(6 marks)

(d) Assess the rent that the tenant is willing to pay on renewal of the lease, assuming no premium is paid and all other terms are as in the existing lease.

(6 marks)

Q2 Shop premises, situated in the main shopping area of a provincial town, are held on a 20-year internal repairing lease [IRL] with 3 years unexpired. The present rent passing is RM65,000 per annum exclusive.

The Tenant wishes to surrender this lease and obtain a new one, in order to carry out improvements costing RM50,000.

The current net rack rental value of the premises in their present state is RM70,000 per annum on the basis of 5-year rent reviews, but the proposed improvements will increase this to RM80,000 per annum.

The landlord is agreeable to the surrender and the proposed improvements provided the new lease is on full repairing insuring [FRI] terms and the rent is reviewed every 5 years.

Market evidence indicates that, all risks yields of freehold interests are assumed at the region of 7% to 12% whereas, remuneration yields for leasehold interests are of 8% with tenant pay tax at 35% and can obtain 3% of net sinking fund rate. As the rent received is on internal repairing terms, therefore the cost of external repairs and insurance shall be paid by the landlord, and it is assumed to be about 7.5% of full rental value [FRV].

Based on available data, you are required to:

(a) Calculate the proposed rent required by the landlord for the first 5 years of the new lease.

(6 marks)

(b) Calculate the proposed rent that the tenant is willing to pay for the first 5 years of the new lease.

(6 marks)

(c) Advise the landlord the price he should offer if the tenant is prepared to purchase the freehold interest in the premises.

(14 marks)

- END OF QUESTIONS -