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UNIVERSITI TUN HUSSEIN ONN MALAYSIA

FINAL EXAMINATION
SEMESTER II
SESSION 2021/2022

COURSE NAME : APPLIED VALUATION

COURSE CODE : BPF 32903

PROGRAMMECODE : BPD

EXAMINATION DATE : JULY 2022

DURATION : 3 HOURS

INSTRUCTION

1. ANSWER **ALL** QUESTIONS.
2. THIS FINAL EXAMINATION IS CONDUCTED VIA **CLOSED BOOK**.
3. STUDENTS ARE **PROHIBITED** TO CONSULT THEIR OWN MATERIAL OR ANY EXTERNAL RESOURCES DURING THE EXAMINATION CONDUCTED VIA CLOSED BOOK.

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

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Q1 The owner of a small freehold office building wishes to obtain the maximum capital value of his investment. The building has ground plus three upper floors. Each floor comprises 300 sq.m. There is a lift with a 12 person capacity which serves all floors. Similar sized and quality buildings in the town are letting at RM250 per sq.m., whereas small suites of around 250 to 300 sq.m., are achieving rentals of RM280 per sq.m., both on FRI terms. Market evidence also indicates that freehold all risks yield is 6%.

The market evidence indicates that all risks yield increased by 0.25 per cent where separate lettings are arranged to reflect potentially smaller tenants that do not represent quite as good an investment risk compared to one larger company occupying a whole building.

The owner is undecided whether to let out his office building as a single entity or break up and offer it as a smaller interest. You have been approached by the owner to:

- (a) Value the freehold interest to a single tenant for the whole building. (10 marks)
- (b) Value the freehold interest if each floor is let separately. (10 marks)
- (c) Calculate the "Divorce" value that the owner would gain if he decides to let the property separately to a different tenant. (5 marks)

Q2 Mr. Ali is a leaseholder who occupies an office property under a ground lease with an unexpired term of 20 years at a fixed ground rent of RM10,000 per annum. From comparable properties, the current market rent of the office building is estimated at RM200,000 per annum.

Freehold all risk yields (ARY) are 8%. Mr Ali pays tax at 40% and can obtain a 3% net annual return on a sinking fund. Leasehold yield is assumed at 1.5% above freehold ARY.

Mr Ali wishes to buy the freehold interest from Mr Baker, the property owner.

- (a) Calculate the value of freehold interest with vacant possession of the property. (5 marks)
- (b) Assess the current value of Mr. Baker's interest (Freeholder) with respect to the subject property. (10 marks)
- (c) Assess the current value of Mr. Ali's interest (Leaseholder) with respect to the subject property. (10 marks)
- (d) Apportion of the 'Marriage' value released to the respective interests of Mr. Ali and Mr. Baker with regards to the subject land. (10 marks)

- (e) Calculate the price that is likely to be agreed upon by both Mr. Ali and Mr. Baker for this purchase.

(10 marks)

- Q3** 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 RM55,000 per annum exclusive.

The tenant wishes to surrender this lease and obtain a new one, in order to carry out improvements costing RM40,000.

The current net rack rental value of the premises in their present state is RM60,000 per annum on the basis of 5-year rent reviews, but the proposed improvements will increase this to RM70,000 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.

The market evidence indicates that all risk yields of freehold interests are assumed at the region of 7% to 12% whereas, remuneration yields for leasehold interests are 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 the full rental value (FRV).

- (a) Advise the landlord of the minimum proposed rent that he would accept for the next 5 years of the new lease.

(10 marks)

- (b) Advise the tenant of the maximum proposed rent that he would accept for the next 5 years of the new lease.

(10 marks)

- Q4** A tenant holding a shop on a repairing lease for 40 years with an unexpired term of 2 years desires to surrender his current lease and to obtain a fresh lease for another 40 years at the same rent. The rent reserved under the present lease is RM10,000 per month. The market rental is RM15,000 per month.

It is assumed a leasehold yield of 7% and the tenant pays a tax liability of 40% and obtains 2.5% of the net sinking fund rate.

Calculate the amount of premium that can reasonably be agreed upon between the landlord and tenant

(10 marks)

-END OF QUESTIONS -

