



**UNIVERSITI TUN HUSSEIN ONN
MALAYSIA**

**FINAL EXAMINATION
SEMESTER II
SESSION 2012/2013**

COURSE NAME : ADVANCED REAL ESTATE
VALUATION

COURSE CODE : BPE 12503

PROGRAMME : 1 BPD

EXAMINATION DATE : JUNE 2013

DURATION : 3 HOURS

INSTRUCTION : ANSWER **FOUR (4)** OUT OF SIX
QUESTIONS

THIS QUESTION PAPER CONSISTS OF **EIGHT (8)** PAGES

Q1 You are required to carry out an assessment of reinstatement value of premises in case of destruction by fire and other perils.

You have been furnished with the following data regarding the subject property located in your own town.

Land details:

Land area : 18 270 s.f
 Tenure : Freehold
 Category of land use : Building
 Restriction of interest : Nil
 Encumbrances : Nil

Building details:

Construction : 15-storey hotel block with 2 basement level constructed with reinforced concrete frames, brickwork and glazed aluminium windows to external walls and reinforced concrete flat roof.
 Year of completions : 2004
 Accommodation & design features : 153 bedrooms 3 star hotel, 15-storey rectangular shaped building with reception, lobby and restaurant occupying 240 sm of ground floor of the building.

Built up area:

Basement floor	-	288 s.m
Ground floor	-	240 s.m
Upper floor	-	<u>4 209 s.m</u>
Gross Floor Area	-	4 737 s.m
Usable area	-	2 795 s.m
Circulation	-	1 626 s.m
Ancillary area	-	<u>316 s.m</u>
Gross Floor Area	-	4 737 s.m

The breakdown on cost of construction of the subject property is as follows:

Building element	Total cost (RM)
Preliminaries	487 500.00
Substructure	
- Piling	1 500 000.00
- Work below lowest floor	281 754.63
Superstructure	1 960 053.90
Finishes	770 741.30
Fitting and furnishings	3 060 000.00
Services	4 020 819.06

External works	12 750.00
Interior design	322 500.00
Landscaping	15 000.00
External logo	52 500.00
Security system	30 000.00
Total cost	12,513,618.88

Market indicators:

- Based on information from the Building Cost Index, there is an indication that the average increase in the cost of construction per annum is approximately 5%.
- Commercial land in the vicinity of the subject property has been transacted at prices ranging from RM250.00 to RM300.00 psf.

(a) Determine the reinstatement value of the subject property for fire insurance purpose based on the information provided,

(20 marks)

(b) Explain on under what circumstances is the Cost (Contractor's) Method used as a method of valuation.

(5 marks)

Q2 A twenty storey hotel was built on a freehold site of 1.2 hectares in the Batu Pahat town. It has 300 rooms and other facilities. The rooms include 10 suites, 50 superdelux, 110 deluxe and 130 superior rooms. Facilities available include restaurants, bar/lounge, shops, function rooms and banquet hall and 200 car parks. Other facilities include a swimming pool, tennis courts and landscaped gardens.

The room rates range from RM230 to RM 450 per night.

The hotel is being managed by a hotel management company and information extracted from the last 3 years holding accounts revealed the following **Table Q2**:

Table Q2: Account Statement for the year 2010, 2011 & 2012

Particulars	Year 2010 (RM)	Year 2011 (RM)	Year 2012 (RM)
<u>Revenue</u>			
Room Revenue	18,201,750	19,500,380	20,107,900
Food & Beverage	9,100,875	9,750,190	10,053,950
Other revenues	380,150	395,850	436,400
Telephone & Internet	114,000	116,000	120,000
Gross Revenue	27,796,775	29,762,420	30,718,250

Cost of Sales	8,339,035	8,928,726	9,215,475
<u>Hotel Operation Expenses</u>			
Salaries, bonus, EPF, Socso	3,800,500	4,000,000	4,500,000
Electricity & water	950,000	1,000,000	1,200,000
Laundry & linen	150,000	180,000	200,000
Taxes	100,000	100,000	100,000
Operation insurance	10,000	15,000	20,000
Telephone	200,000	210,000	230,000
Promotion, landscaping and general expenses	160,000	180,000	200,000
<u>Repairs & Renewals</u>			
Building & machinery	950,000	1,000,000	1,200,000
Furniture, soft furniture, crockery, glass & cutlery	40,000	45,000	50,000
Working Capital	3,500,000	3,800,000	4,000,000
Room Occupancy	70%	72%	75%

Based on the information provided:

- (a) Determine the value of the subject property (a twenty- storey hotel) for balance sheet purpose.
(20 marks)
- (b) Explain on under what circumstances is the Profit Method used as a Method of Valuation using an example.
(5 marks)

Q3 You are requested by your client to value a piece of freehold vacant land proposed for a typical housing development in your locality which he intends to buy over. The land, with the gross land area of 100 acres, has been approved for a mixed housing development. Further details regarding the property are as follows:

- | | |
|--|-------------------------|
| 1) Proposed Development | Selling Price (RM/Unit) |
| • 500 units single storey terrace houses | 75,000 |
| • 500 units double storey terrace houses | 95,000 |
| • 300 units single storey semi detached | 125,000 |
| 2) Construction Cost | Cost (RM/Unit) |

- Single storey terrace houses 30,000
 - Double storey terrace houses 42,000
 - Single storey semi detached 50,000
- 3) Infrastructure
100 acres @ RM3.00 per sq. feet
(including oxidation ponds, sewerage reticulation, water reticulation, roads and drains, electricity, telecom, earthworks, TNB sub-stations, monsoon drains, etc.)
 - 4) Professional fees @ 10% of construction cost of building and infrastructure
 - 5) Management and administration cost @ 3% of construction cost and infrastructure
 - 6) Sales and advertising @ 2% of total sales realisation
 - 7) Legal fees @ 2% of total sales realisation
 - 8) Statutory contributions say RM125,000
 - 9) Site supervision costs say 36 months @ RM5,000 per month
 - 10) Contingencies @ 5% of items 1 & 2
 - 11) Interest on finance @ 50% of development costs @ 12% per annum for three years
 - 12) Pre tax profit is assumed @ 30%

Notes and assumptions:

- Take up rate for the proposed housing scheme is 100%
 - Proposed project duration of three (3) years
 - Bridging finance is available at 12% per annum (BLR + 3% per annum)
- (a) Value the subject site for purchase purpose based on the information provided.
(20 marks)
 - (b) Bridging finance is one of the items in the Gross Development Costs in the residual valuation.

Explain what bridging finance is and how it affects the property development project's viability.
(5 marks)

- Q4** (a) Mr Ahmad Nesfoo owns a plot of freehold vacant land measuring 2 acres in the heart of Kuala Lumpur. Brief title particulars of the subject land are shown in the following **Table Q4a**:

Table Q4a : Detail particular of the subject property

Lot No	:	123
Title No	:	Grant 234
Section	:	57
Town	:	Kuala Lumpur
District	:	Wilayah Persekutuan
State	:	Wilayah Persekutuan KL
Land area	:	2 acres
Tenure	:	Freehold
Category of Land use	:	Building
Express condition	:	Untuk bangunan perniagaan sahaja
Registered proprietor	:	Ahmed bin Nesfoo
Lease	:	The whole of the land has been leased to Dora & Co for a period of 90 years at the yearly rental of RM120,000.00. The lease commenced on 1/5/1979.

Your investigations revealed that the similar plots of land are leased out for about RM80,000 per acre per year. Your client, Little Einstein & Co would like to buy the freehold interest in lot 123 and has appointed you to be his advisor.

- (i) Carry out a valuation to advise Little Einstein & Co on the price he should pay to Mr Ahmad Nesfoo (the freeholder's interest).
(9 marks)
- (ii) Carry out a valuation to advise Little Einstein & Co on the price he should pay to Dora & Co (the Leaseholder's interest).
(6 marks)
- (b) A tenant holding a shop on a full repairing insurance (FRI) lease for 40 years with an unexpired term of 10 years desires to surrender his lease and obtain a fresh lease for another 40 years at the same present rent rate payable to the landlord. The rent payable under the present lease is RM10,000.00 per month. The market rental value is RM15,000.00 per month.

Decide the premium that can reasonably be agreed by the landlord for the proposed new lease agreement.

(10 marks)

- Q5** Mr Ahmad Suhaimi owns Lot No. 2586 of agricultural land located in Kampong Parit Raja in the Mukim & District of Batu Pahat, State of Johor. The Subject land is located within the Kampong Parit Raja Malay Reservation Area and the title is endorsed with 'Malay Reservation'. It is a freehold land with a provisional land area of 2.00 acres and it is fronting onto Jalan Parit Raja.

Lot No 2586 is built upon with a Kampong house of temporary construction with a main floor area of 2,500 sq. feet and is in a fair state of repair. He has also built a small workshop at the back of his car workshop business. This workshop is of timber frame structure covered with corrugated iron roof sheets and a concrete floor with its sides open. The floor area of this workshop is approximately 600 sq. feet and it is in a fair condition. Besides these structures, the site is fenced with chain link fencing reinforced with barbed wire on top.

The comparable properties within the surrounding areas are shown in **Table Q5** below:

Table Q5: List of comparable subject properties within the vicinity

Lot no	2590	2602	2548	2592
Land area (acres)	1.5	2.4	1.5	4.5
Land use	Agriculture	Agriculture	Agriculture	Agriculture
Description	Flat & vacant	Flat & planted with old rubber trees	Flat & vacant	Flat & vacant
Location	Fronting onto Jalan Parit Raja and is 300 meters north of the subject property	2 nd layer from Jalan Parit Raja and is 500 meters away from the subject property	Fronting onto Jalan Parit Raja and is 600 meters south of the subject property	Fronting onto Jalan Parit Raja and is 300 meters south of the subject property
Malay Reservation	No	No	Yes	Yes
Consideration (RM)	75,000	75,000	60,000	210,000
Date of Sale	1/08/2011	21/05/2012	25/04/2011	1/08/2012

Based on the available information as per **Table Q5** above, you are required to:

- (a) Determine the market value of Lot No 2586, Kampong Parit Raja, Mukim & District of Batu Pahat, State of Johor for Sale purpose.

(20 marks)

- (b) For the Comparison Method of valuation to be reliable, one of the conditions is that, the properties compared must be similar to the subject property. List out **five (5)** other conditions.

(5 marks)

Q6 Mr AYZ has just purchased the freehold interest in development land. He has just obtained planning permission to build 75 houses on the site. Details information on the subject developed land is as follows:

Purchase price of the land	: RM 2 350 000
Incidental costs of acquisition	: RM 94 000
Building period	: 1 year
Gross floor area of each house	: 115 sq.m
Building costs	: RM 465 per sq.m
	- 5 % evenly distributed over the first 3 months
	- 90% evenly distributed over 6 months and
	- 5 % evenly distributed over 3 months
Contingencies	: 10% of building costs
Architect's and quantity surveyor's fees	: 10% of building costs and contingencies
	- 50 % payable on commencement of the development cost
	- 50% on completion
Anticipated sale price of each house	: RM 105 000
Estate agent's and legal fees	: 3 % of sales proceeds
Finance	: 1 % per month

It is assumed that 25 houses will be sold after 4 months, 40 houses after 8 months and 10 houses on completion.

- (a) By using a monthly discounted cash flow, calculate the Net Present Value (NPV) of the proposed development scheme
(10 marks)
- (b) By using a monthly discounted cash flow, calculate the Internal Rate of Return (IRR) of the proposed development scheme
(12 marks)
- (c) Define the Net Present Value (NPV) and the Internal Rate of Return (IRR) with regard to the property development project
(3 marks)

- END OF QUESTION -