UNIVERSITI TUN HUSSEIN ONN MALAYSIA

FINAL EXAMINATION
SEMESTER II
SESSION 2009/2010

SUBJECT NAME	:	ADVANCED REAL ESTATE VALUATION
SUBJECT CODE	:	BPE 1253
COURSE	:	1 BPD
DATE	:	APRIL / MAY 2010
DURATION	:	3 HOURS
INSTRUCTION	:	ANSWER **FOUR (4)** QUESTIONS ONLY OUT OF SIX (6) QUESTIONS.

THIS QUESTION PAPER CONSISTS OF 7 PAGES

Q1 Mr Tajuddin owns an agricultural land in the Mukim of Parit Raja, Johor. The land is located at the first layer off Jalan Batu Pahat – Air Hitam. Details of the subject land are as follows:

Lot no	: 2367
Mukim	: Parit Raja, District of Batu Pahat, State of Johor
Land Area	: 4.50 acres
Category of land use	: Agriculture
Tenure	: Freehold
Annual Rent	: RM18.00
Registered Owner	: Tajuddin Bin Suratman
Express Condition	: For a cultivation of fruit trees
Other endorsement	: Malay reservation

Upon site inspection, it is noted that the land has the following descriptions:

Terrain : Flat
Cultivation : Fruit trees
Buildings : 2 detached houses on the subject land.

a. A 2-storey house of permanent construction with a main floor area of 2,500 square feet. The estimation of construction cost is RM100 per square foot.
b. A single storey detached house of permanent construction with a main floor area of 1,500 square feet. The estimation of construction cost is RM80 per square foot.

Access : Metallic road
Facilities : Connected to the water & electricity mains.
Fencing : Chain link enclosed the site

Sales evidences of the similar lands within the surrounding neighbourhood indicate the following:

Lot no	2553	2586	2590	2571
Mukim & District & State	Parit Raja, Batu Pahat, Johor	Parit Raja, Batu Pahat, Johor	Parit Raja, Batu Pahat, Johor	Parit Raja, Batu Pahat,Johor
Land Area (acres)	3.94	4.09	4.25	4.00
Sale Price	RM560,000	RM650,000	RM730,000	RM480,000
Category of land use	Agriculture	Agriculture	Agriculture	Agriculture
Tenure	Freehold	Freehold	Freehold	Freehold
Express Condition	Nil	Nil	Nil	Nil
Terrain	Flat	Flat	Flat	Flat

Layer	1st layer	2nd layer	1st layer	2nd layer
Other endorsement	Malay reservation	Nil	Nil	Malay reservation

Prepare a valuation of Lot no. 2367, Mukim of Parit Raja, District of Batu Pahat and State of Johor for **sale purpose**.

(25 marks)

Q2 Hanan 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 is reserved for internal service road. The estate can be accessible via secondary road and is located about 20 kilometers from the nearest town. The estate is in good maintenance and management.

Details of the estate's plantations and productions are as follows:

Block	Acreage (Acre)	Crops	Year planted
A	250	Rubber	1979
B	230	Rubber	1984
C	250	Palm Oil	1987
D	250	Palm Oil	1996

Block	Production		
	2002	2001	2000
A	200,000 kg	210,000 kg	210,000 kg
B	230,000 kg	230,000 kg	235,000 kg
C	3,750 tonne	3,750 tonne	3,700 tonne
D	2,000 tonne	1,990 tonne	1,870 tonne

Market price of rubber is RM3.20 per kilogram and its production cost is 40% from the market price. Market price of palm oil is RM300 per tonne and its production cost is RM75.00 per tonne.

Comparable sales evidences of similar vacant land for rubber and palm oil are RM5,000 per acre and RM7,000 per acre respectively.

Economic life for rubber tree is 30 years and palm oil tree is 25 years.

Determine the market value of the estate land for **purchase purpose**.

(25 marks)

Q3 Mr Aaron has just purchased the freehold interest in a development land. He has just obtained planning permission to build 80 houses on the site. Details of the subject development land are as follows:

Purchase price of the land	: RM 2,500,000
Incidental costs of acquisition	: RM 95,000
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 upon commencement of the development cost - 50% upon completion
Anticipated sales price of each house	: RM 110,000
Estate agent's and legal fees	: 3 % of sales proceeds
Finance	: 1 % per month

It is assumed that 20 houses will be sold after 3 months, 50 houses after 6 months, 80 houses after 9 months and 20 houses upon completion.

By using quarterly discounted cash flow, calculate:

(a) The Net Present Value (NPV) of the scheme.

(12.5 marks)

(b) The Internal Rate of Return (IRR) of the scheme.

(12.5 marks)

20
50
80
20
170

Q4 An Investor, Mr Carlo, has RM1,400 to invest and has a choice between Project A and Project B. Details on income flows of both projects are anticipated as below:

Income flow	**Project A**	**Project B**
	RM	RM
Year 1	600	200
Year 2	400	400
Year 3	200	400
Year 4	400	600
Year 5	400	600

Mr Carlo's target rate for both investments is 10%. The investments are mutually exclusive that only one of the two projects can be undertaken.

(a) Calculate the Net Present Value (NPV) of Project A and Project B.

(20 marks)

(b) Advise Mr Carlo on which investment project that he should undertake.

(5 marks)

Q5 A 50-bed hotel in Batu Pahat, Johor has an average annual occupancy of 50% and charges, on average, RM70.00 per room per night. The premises are held on a freehold basis and the hotel is part of a small chain and must contribute towards head office overheads.

Data information extracted from hotel accounts are shown below.

Income	**RM**	**Expenditure**	**RM**
Accommodation	638,750	Purchases during the year	45,000
Bar	45,000	Wages	200,000
Restaurant	25,000	Utilities	3,500
		Laundry & Cleaning	2,500
		Business rates	36,000
Value on 1 Jan	105,000	Advertising	1,000
Value on 31 Dec	95,000	Contents insurance	1,250
Value of fixtures, fittings,		Repairs & Renewals	2,500
Furniture and equipment	250,000	Building insurance	1,000
		Contribution to HQ costs	2,000
		Operator's remuneration	50,000

By considering all the above data, you are required to carry out a Profit Method of valuation to:

(a) Determine a total value of business for the hotel.

(20 marks)

(b) Justify the appropriateness of the Profit Method in valuing this type of property compared to other methods of valuation.

(5 marks)

Q6 XYZ Building is proposed to be developed with the construction costs estimating at RM1,750,000. Some components and services will require renewal every 10 years at cost of RM10,000 and others every 20 years at cost of RM35,000. It is estimated that the building itself has a life span of 50 years. Annual maintenance costs are expected to be RM5,000.

Assuming an interest rate of 10 % per annum, calculate:

(a) Initial Capital Equivalent of the proposed development.

(10 marks)

(b) Annual Equivalent Costs of the proposed development.

(10 marks)

(c) Explain the relevance of a life cycle costing calculation to the proposed development.

(5 marks)

END OF QUESTION PAPER