KENYATTAUNIVERSITY

EXAMINATION FOR THE DEGREE OF BACHELOR OF SCIENCE IN REAL ESTATE MANAGEMENT

BRE 309: APPLIED VALUATION I

1ST SEMESTER 2021/2022 **TIME: 2 HOURS**

INSTRUCTIONS:

Answer question **ONE** and any other **TWO** questions.

Question ONE

a) Define the following terms:

   i. Severance [2 marks]

   ii. Development appraisal. [2 marks]

b) Distinguish between price, market value and cost. [3 marks]

c) Outline the key requirements for valuer registration as per the Valuers Act Cap 532 of the Laws of Kenya. [3 marks]

d) A petrol station, located on a 1.2 acre parcel of land along Thika Road, is held for a term of 99 years from 1st December 2020. The forecourt occupies approximately 0.5 acres, while the non-forecourt area occupies 0.4 acres. The remaining land is undeveloped. Petrol and diesel sales amount to Kshs.30,000 per day. The sales are projected to increase at an annual rate of 2.5% for the next two years and 3% in years 4 and 5. The cost of sales is approximately Kshs.15,000 per day for the first two years, growing at a rate of 1.5% annually. Additionally, wages and salaries for the forecourt staff is Kshs.1,200,000 per annum. As a matter of policy, the company reviews salaries at a rate of 5% per annum. Other expenses associated with the forecourt area are estimated at Ksh.250,000 per annum for the first three years and thereafter increase at a rate of 2% per annum.

The Non-Fuel Revenue (NFR) involves income generated from the station building measuring 1,800 square feet, service bay at 900 square feet, shop measuring 450 square feet, and a restaurant that measures approximately 650 square feet. The buildings are leased to different tenants for a term to 5 years with provision for annual rent reviews at 5%. The current net rental income is as follows:

Building	Rent per square foot per month (Kshs.)
Station building	80
Restaurant	85
Service Bay	60
Shop	75

Comparable evidence within the neighborhood indicates that land values analyze at Kshs,70,000,000 per acre. The fuel revenue is expected to grow at 2.5% per annum after year 5, while the market rent for the building is estimates as follows: station building: Kshs.120, restaurant: Kshs.100, service bay: Kshs.80 and shop: Kshs.100. Considering a yield of 15% per annum and making necessary assumptions calculate the value if the petrol station. [20 marks]

Question Two

Explaining all assumptions made, undertake a valuation of both the lessor's and lessee's interest in a retail property having the following characteristics.

A freeholder was granted a 30 years full repairing and insurance lease of a retail property along Ngong Road ten years ago. The property measuring 2,800 square feet is leased at an agreed rent of Kshs.120 per square foot per month for the first 5 years with a prearranged further increase of the rent to kshs.130 per square foot per month for the next five years and thereafter subject to 10% rent review every 5 years.

According to comparable evidence from similar properties, market rent for the subject property is currently estimates at Kshs.150 per square foot per month. Market rentals for similar properties have been increasing at a rate of 2.5% per annum and this trend has been forecast to continue in the foreseeable future. Adopt a market all-risk yield of 10% and a sinking fund set up by the leaseholder at a rate of 5% per annum. Outgoings are estimated at 15% of the gross income.

[20 marks]

Question Three

a) In furtherance of a road widening scheme, the national government is acquiring a strip of land up to a width of 4 metres along Waiyaki Way. One of the affected properties has a frontage of 20m with a width of 50m. Upon it is a double story commercial property measuring approximately 6,500 square feet. The property is currently occupied by the registered proprietor. Since the property is constructed close to the highway, a section of it will be affected by the acquisition, warranting the property's demolition. Current construction rates for similar properties are estimates at Kshs.4,000 per square foot, while professionals fees and site works are estimated at 10% and 5% of the total construction cost, respectively. Vacant plots within the vicinity have recently been sold for Kshs.100,000,000 for 0.25 acre plots. The estimates reconstruction period for a similar property is approximately 12 months. Within this period, the owner will be expected to seek alternative accommodation at a rate of Kshs.750,000 quarterly relocation and resettlement costs are estimated at Kshs.100,000. Using the information provided and making any other necessary assumptions, assess the compensation amount.

[10 marks]

b) ABC Company limited owns a 0.5 hectare plot along Ngong Road in Nairobi. The term of the lease is 99 years from 1st December 1927 at an annual ground rent of Kshs10,000. The company intends to use the property as a collateral. The bank has accepted with the condition that the proprietors apply for a lease extension as the remaining terms of the lease is too short. The National Land Commission has approved 50 years extension. Property values in the vicinity are estimates at approximately Kshs.12,000 per square metre. Using a yield of 10% and a sinking fund of 5%, calculate the rent payable under the new term. As a policy, full rental value is calculated at a rate of 5% of the estimated value for residential, commercial and industrial properties. [10 marks]

Question Four

Mr. Onyango owns a 2.05 hectares sugarcane farm in Nyanza province. Production for similar farms in the area is approximately 100 tonnes per acre for the plant crop, while the ratoon crops vary at 80, 70 and 60 tonnes for the 1st, 2nd and 3rd ratoon crops. Currently, sugarcane is sold at Kshs.4,500 per tonne. The plant crop matures within a period of 1 year 10 months, while it takes approximately 1 year 7 months for the ratoon crops to mature. The costs incurred include land and seed preparation at Kshs.10,000, costs of seed cane at Kshs15,000, planting costs at Kshs.15,000, wedding at Kshs,10,000 and fertilizers and top dressing at Kshs.20,000 per acre. Harvesting and transport costs are estimated at Kshs.1,000 per tonne while management costs are approximately 15% of the gross income.

Compare sales for vacant parcels of land in the area analyze to about Kshs.1,000,000 per acre. Using a yield of 10% and adopting all the necessary assumptions, value the freehold interest of the sugarcane farm. [20 marks]

Question Five

You have been engaged by KCB Bank to undertake a valuation of Garden City Mall for mortgate purpose. Discuss the approach, procedure and standards/legislation to be adopted in the assessment of market value, insurance value and forced sale value. [20 marks]