KENYATTA UNIVERSITY

UNIVERSITY EXAMINATIONS 2019/2020

FIRST SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF SCIENCE (REAL ESTATE MANAGEMENTS)

BRE 309: APPLIED VALUATION I

DATE: WEDNESDAY 11TH DECEMBER 2019 TIME: 11.00 A.M. – 1.00 P.M.

INSTRUCTIONS

Answer Question One and any other Two questions

Question One

a) Explain the term statutory valuation. (2 marks)

b) Explain the concepts of the Years Purchase (Single Rate) and years Purchase (dual Rate) in the conventional valuation of real estate (4 marks)

c) Differentiate between the abstraction method and the residual method of valuation (4 marks)

d) Undertake a valuation of both the lessor's and lessee's interests in a commercial property having the following characteristics:

A 25 year full repairing and insuring lease of a commercial property granted two years ago with an initial quarterly rent of Kshs 450,000 for the first five years with a prearranged further increase of the rent to Kshs 170,000 per month for the next five years and thereafter subject to 5% rent review every five years. Comparable evidence from similar properties in that market indicate the market rent for the subject property is currently estimated at Kshs. 200,000 per month. Market rentals of similar properties have been increasing at a rate of 3% per annum and this trend has been forecast to continue in the foreseeable future.

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Similar properties in the market have been fetching a yield of 12%. Further, similar leasehold interests have been requiring the setting up of an annual sinking fund at a rate of 5% per annum.

Assume that outgoings amount to 15% of the rental income

You are required to explain any other necessary assumptions that you may need to make in the valuation of both the freehold and leasehold interest in the property (20 marks)

Question Two

Your client owns a 2 acre piece of land situated on the outskirts of Kiambu Town. The property is held on a leasehold interest for a term of 99 years with effect from 1st November 1921 at an annual ground rent of ksh. 10,000/-. Since the remaining term of the lease is too short, the client has applied for a lease extension and the National Land Commission has approved an extension of the lease by 50 years.

Further, the client has been granted approval to subdivide the land into five subplots as follows

Plot a = 0.512, Plot B = 0.427, Plot C = 0.325, Plot D = 0.319 , Plot E = 0.246

Assume the value of the entire parcel is currently going for kshs. 600 per square metre, small parcels after subdivision at Kshs. 850 per square metre, rate of return of 10% and a sinking fund of 5%

Using the above information, calculate the following:

a) Rent payable for the big parcel (before subdivision) under the new term (10 marks)

b) Rent payable for each sub plot after subdivision under the new term (10 marks)

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Question Three

a) Valuation is more of an art than a science. Evaluate this statement and indicate if you agree or disagree with the statement (5 marks)

b) A client, who is a real estate developer, has approached you for an advice on the maximum bid (including detailed components of the bid) that he may offer for a site measuring approximately 1.5 acres located in a local commercial centre which is zoned for high density residential developments and with a full planning and building permissions for four blocks of high end residential apartments, each block comprising ten three bedroom apartments , with each apartment measuring approximately 150 square metres. Several units of dilapidated residential facilities are presently occupying the site. The development is scheduled to be completed in 2 year's time, including site preparation and the marshalling up of all the resources required for the development. A post-build period to cater for either the letting or the selling of the apartments is estimated to take approximately one year. Subject to your advice, the developer wishes to immediately embark on the residential development on the basis of the approved plans.

The developer proposes to partly use borrowed funding and partly equity funding and expects a 15% return on his enterprise. An analysis of the market indicates that recently constructed three bedroom residential apartments in the neighborhood are letting at a gross rent of Kshs. 200,000/- per month and construction costs for similar developments are going at kshs. 30,000 per square metre. Further, an all-inclusive construction professional fees is estimated at 12.5% of the building costs and cost of finance is estimated at 18% per annum.

Where any of the necessary development parameters have not been provided, you are expected to make reasoned assumptions (15 marks)

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Question Four

Your client owns a freehold 10 acre piece of land in Kiambu County. The land is developed with his/her residence and a grocery shop. He/she has just received a notice from the National Land commission of the intention to compulsory acquire a portion of the land for purposes of construction of a road. In addition to the residence and the shop, the land is also used for farming. The proposed road will traverse the land such that the remaining two portions after acquisition will be completely separated from one another by the road. Further, his residence will be situated on one portion and the shop on the other.

Using the above information and explaining any other necessary assumptions, you are required to advise your client on the following :

a) The process that would be followed by the National Land Commission to compulsorily acquire the portion of the land that is required for the construction of the proposed road (8 marks)

b) The principles of compensation and the matters to be taken into account in assessing the amount of compensation (12 marks)

Question Five

a) Explain how you would go about valuing a business enterprise as a going concern (5 marks)

b) A petrol station along Waiyaki Way is held for a term of 50 years from 1st November 2018 and is located on a 1.8 acre parcel of land with the forecourt area occupying 0.5 acres, the non-forecourt area occupies 0.4 acres whilst the remaining land is vacant. Its accounts for the next five years are as follows

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Year	2020	2021	2022	2023	2024
Sales	10,500,000	12,800,000	13,200,000	14,500,000	15,600,000
Cost of sales	7,200,000	7,500,000	7,800,000	8,100,000	8,700,000
Wages and salaries	275,000	275,000	285,000	300,000	315,000
Other administrative expenses	255,000	268,000	275,000	275,000	280,000

Outbuildings are as follows:

Building	Size (square foot)	Rent per square foot per month (KES)
Station building	1500	70
Service bay	850	60
Restaurant	620	60
Gen set	200	40

Comparable evidence within the neighborhood indicate that land values analyze at KES. 25,000,000 per acre. Consider a yield of 15% per annum. Income from both the forecourt and non-forecourt area is expected to grow at a rate of 5% at the end of five years. Additionally, rental income for outbuildings is expected to grow at a rate of 5% annually for the first five years.

Taking all necessary assumptions, calculate the value of the petrol station (15 marks)

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