KENYATTA UNIVERSITY
UNIVERSITY EXAMINATIONS 2020/2021
FIRST SEMESTER EXAMINATION FOR THE DEGREE OF
BACHELOR OF SCIENCE (REAL ESTATE MANAGEMENT)

BRE 309: APPLIED VALUATION 1

DATE: TUESDAY, 30TH MARCH, 2021 **TIME: 11.00 A.M. - 1.00 P.M.**

INSTRUCTIONS:
Answer Question ONE and any other TWO Questions

Question One

(a) With aid of examples, define special properties. (2 marks)

(b) Define Automated Valuation Models (AVM) and indicate whether you support its introduction in a developing country context like Kenya. (4 marks)

(c) Distinguish between a rate of return and years purchase and explain the circumstances under which each of them is adopted in valuation. (4 marks)

(d) Value the following freehold and leasehold interest in an office space in Upper hill for compensation purposes:

The freeholder leased a commercial property two years ago for a 20 years full repairing and insurance lease at a rent of KES. 100 per square foot per month. The property's gross internal area is 2,000 square feet. The lease agreement provides for rent reviews every 5 years with a prearranged further increase to KES. 130 per square foot per month for the next five years, 10% rental increase for the following 5 years and thereafter, subject to 5% rent review every 5 years.

Comparable evidence from similar properties in the market indicate that market rent for the subject property is currently estimated at KES. 120 per square foot per month. Market rentals for similar properties have been increasing at a rate of 3% per annum and this trend has been forecast to continue in the foreseeable future. All risk yield of 10% is deemed to apply to this type of real estate investment. Assume the leaseholder will be required to set up a sinking fund at a net rate of 3% per annum. Outgoings are estimated at 10% of the gross income.

Upon acquisition and compensation by the government, it is estimated that the freeholder will take approximately 6 months to purchase a similar property while the leaseholder will take approximately 2 months to acquire new space and settle down. The lease holder currently makes a profit of KES. 10,000/- per day at the said premises. Assume that the leaseholder will incur relocation costs of KES. 50,000. Using the information provided, assess the compensation amount for both the freeholder and leaseholder. You are expected to explain any other necessary assumptions. (20 marks)

Question Two

The Country club guest house in Murang'a County is categorized with three department i.e. rooms department, food and beverage department and other operating departments. The rooms department is in charge of a total of 35 No. rooms comprising 20 single rooms and 15 double rooms. Single rooms are currently going for KES 1,500 per night while double rooms go for KES, 2,500 per night. The estimated level of occupancy is 30%. Expenses incurred in this department amount to KES. 100,000 per month. Revenue from the food and beverage department is estimated at KES. 120,000 per month with corresponding expenses of KES. 70,000 per month. Money collected form other operating departments' amount to KES. 1,000,000 per annum with expenses of KES. 500,000 per annum. Miscellaneous expenses amount to KES. 350,000 per annum. Revenue collected from the three department is expected to grow at a rate of 5% per annum with the expenses increasing at a rate of 3% per annum.

The guest house is held on a leasehold interest for a term of 50 years with effect from 1st April 2010. Using a projection of 5 years for the term and assuming a yield of 10%, undertake a market valuation of the guest house. You are expected to explain any necessary assumptions that you may need to aid in the valuation exercise. (20 marks)

Question Three

(a) Briefly explain the procedure that is adopted in undertaking a development appraisal. (5 marks)

(b) Your client has purchased 1.5 acres of development land along Ngong Road in Nairobi's Kilimani Estate at KES. 400,000,000 per acre. The land is held on a leasehold interest for a term of 99 years with effect form 1st April 1980. He/she has obtained full panning an building permissions for a four storey shopping mall measuring approximately 160,000 sq. ft. net lettable area with each floor having 40,000 sq. ft approximately. The first and ground floor comprise retail space projected to let at KES 250 and KES 200 per square foot per moth respectively. The third and fourth floor on the other hand comprise office space expected to let at KES 120 per square foot per month. The development is expected to be completed in 2 years' time, including site preparation and the marshalling up of all the resources required for the development. A post-build period to cater for the letting of the apartments is estimated to take approximately one year.

The developer plans to partly use borrowed funding approximating to 70% of the total project while funding the remaining 30% form equity. The client is happy with a developers profit of 15%. Based on the Bills of quantities provided, construction cost is estimated at approximately Kes. 4,000 per square foot. Further, an all inclusive construction professional fees is estimated at 10% of the building costs and cost of finance is estimated at 18% per annum. Assuming a rate of 12% and explaining your reasons, advice the client on the viability of the proposed project. Where any of the necessary development parameters have not been provided, you are expected to make reasoned assumptions. (15 marks)

Question Four

(a) Define Years Purchase (YP) - dual rate (2 marks)

(b) With aid of examples, differentiate between statutory and non-statutory valuations. (4 marks)

(c) Mr. Mutisya owns 2 acres of agricultural land in Kajiado County. Following the rapid growth of Nairobi's population, a good number of the urban population have migrated to the city's outskirts including Kajiado county. As a result, Mr. Mutisya's land has achieved high potential and it would significantly increase in value if he changed the user to residential. The land is held on a leasehold interest for a term of 99 years with effect form 1st January 1930 at an annual rent of KES. 1,200. The lease therefore has only 8 years unexpired. Mr. Mutisya has obtained approval from the National Land Commission to extend the lease for a further term of 50 years. The value of land for agricultural purposes is KES 2,500 per square meter while its value for residential use is KES. 3,800 per square meter. As a matter of policy, a percentage rate of 5% is currently being adopted for residential, commercial and industrial enhancement. Assuming a rate of 10% and a sinking fund of 5%, calculate;

(i) The rent payable under the new term, upon successful extension of the lease. (8 marks)

(ii) The rent payable upon successful change of user. (6 marks)

Question Five

You have been appointed by Kenya Commercial Bank (KCB) to undertake a valuation of a three bedroom apartment in Nairobi's Kilelelshwa Estate for mortgage purposes.

(a) In detail, discuss the procedure that you will adopt in undertaking the valuation exercise. (7 marks)

(b) Highlighting its strengths and weaknesses, discuss the approach that you will adopt in assessing the market value of the subject property. (8marks)

(c) Briefly explain any 10 contents of your valuation report. (5 marks)