

UNIVERSITY COLLEGE LONDON

University of London

EXAMINATION FOR INTERNAL STUDENTS

For the following qualifications :-

M. Sc.

ESGP5: Valuation

COURSE CODE : **ENVSGP05**

DATE : **19-MAR-02**

TIME : **09.30**

TIME ALLOWED : **2 hours**

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TURN OVER

UNIVERSITY OF LONDON
University College London
The Bartlett
MSc Built Environment:
European Property Development and Planning

Title of paper:
ENVSGP05 Valuation

19 March 2002 0930h

Time allowed: 2 hours

Answer **THREE** questions. All questions carry equal marks.

1. Preston Securities plc own the freehold interest in the following two properties in a West Sussex town:
 - (i) Westley House is an office building on three floors. In 1996 Preston Securities let the entire building to Grace on lease for 14 years at a rent of £73,000 per annum on full repairing and insuring (FRI) terms. No rent review was included in the lease and Grace paid a premium of £12,000 at the start of the lease. In 1999 Grace sub-let the office block to Highland Products plc on lease for 7 years at a fixed rent of £84,000 per annum on FRI terms.
 - (ii) Thorn Works is a small engineering workshop on the east side of the town. In 1998 Preston Securities let the workshop to Blade Systems plc on lease for 14 years at a rent of £65,000 per annum with a 7 year rent review to full rental value. Under the terms of the lease Blade Systems plc is responsible for internal repairs only. The lessee paid a premium of £8,500 when the lease was granted.

The following information is available:

	Full rental Value*	Yield
Westley House	£93,000	7%
Thorn Works	£80,000	8½%

*These rental values are on the same terms as the existing leases.

- a) Value the freehold interest in **each** property. (18 marks)
- b) Value the two leasehold interests in Westley House **and** the leasehold interest in Thorn Works. (15 marks)
2. (i) Explain how you would calculate the net present value of an investment which is available for purchase. The investment has a short life expectancy. Use your own example to illustrate your approach and explain the significance of the net present value figure obtained. (13 marks)
- (ii) How would you extend the analysis considered in (i) in order to calculate the internal rate of return of the investment? (No detailed calculations are required for this part of the question). Explain your approach and discuss whether the approach adopted would provide an approximate figure or a figure correct to a given number of decimal places. (13 marks)
- (iii) Explain the difference between an investor's target rate and the internal rate of return obtained from an investment. Briefly consider the criteria for determining an investor's target rate. (7 marks)

3. Harold sells reproduction furniture from 16 Marshall Street, a shop in a thriving West Midlands town. Harold holds the premises on a full repairing and insuring lease which has 2 years to run at a rent of £53,000 per annum.

As a result of new residential development in the town, Harold's business has been expanding and he has decided to increase the stock he holds to enhance his turnover. Harold feels he needs to ensure he has greater security of tenure before taking steps to expand his trade. He has therefore approached the landlord as he wishes to surrender his lease and obtain a new lease for 14 years on full repairing and insuring terms. Harold is prepared to pay a higher rent and has suggested a figure of £55,000 per annum without review.

His landlord, the freeholder, is prepared to grant a new lease for 14 years on the basis of the full repairing and insuring terms

proposed, but requires a rent of £57,000 per annum with a premium to be paid at the start of the lease. He also requires a rent review in the 7th year of the lease.

In subsequent negotiations Harold has accepted the landlord's proposals except that it has now been agreed that the rent review will be in the 10th year. The full net rental value of the shop is £60,000 p.a. and the current market yield is 6½%.

- (i) Acting between the parties calculate the amount of the premium to be paid.

(25 marks)

- (ii) What difference would it make if there had been a 7 year rent review? It is only necessary to consider this from Harold's point of view.

(8 marks)

4. (i) "Investments which provide a hedge against inflation will generally have lower yields than investments which do not have this characteristic."

Consider this quotation in the context of the factors which determine the pattern of yields in the investment market.

(17 marks)

- (ii) Compare the position of retailers in the United Kingdom where upward only rent reviews are included in a lease, with the position of retailers in other European countries where indexation is used. Consider the situation where rental growth is changing at a different rate to inflation.

(16 marks)

Attempt **only TWO** parts of the following question.

5. (i) Briefly explain the position of a business occupier in the United Kingdom under the Landlord and Tenant Acts, if the landlord serves notice that he requires possession of the premises at the end of the current lease.

- (ii) Explain the method of zoning used for the analysis of shop rentals. Briefly comment on any problems which may arise.

- (iii) Briefly discuss the main measures used in property portfolio performance measurement.

(Each part has equal marks. 33 marks are available for any two parts attempted.)

END OF QUESTION PAPER