UNIVERSITY COLLEGE LONDON

University of London

EXAMINATION FOR INTERNAL STUDENTS

For The Following Qualification:-

M.Sc.

ESGP5: Valuation

COURSE CODE	:	**ENVSGP05**
DATE	:	**26-MAR-03**
TIME	:	**14.30**
TIME ALLOWED	:	**2 Hours**

03-C0003-2-40

TURN OVER

UNIVERSITY COLLEGE LONDON
University of London
The Bartlett
MSc Development and Planning
European Property Development and Planning

Title of paper:
ENVSGPO5 Valuation

26 March 2003 1430-1630

Time Allowed: 2 hours

Answer any **three** questions.
All questions carry the same marks.

1. Thornhill Estates plc own the freehold interest in a shop and factory premises in an East Midlands' town.

(i) 20 Stonegate is a shop, which was let to Holby Toys plc on lease from 1992 for 21 years at a rent of £53,000 per annum on full repairing and insuring terms. Under the lease there are upward only rent reviews to full rental value every 7 years. A premium of £10,000 was paid to Thornhill Estates at the start of the lease.
In 1999 the rent was increased to £65,000 per annum. The current full net rental value is £73,500 per annum and the market yield is 6%.

(ii) Stonegate Works is a factory occupied by Comfort Wear plc. The company holds a lease for 14 years from 1998 at a rent of £71,000 per annum. There is a rent review in the 7^{th} year of the lease to 85% of the full rental value. Under the terms of the lease the lessee is responsible for the internal repairs only. The current full rental value is £88,000 per annum on the same repairing terms. The market yield for this type of factory in the area is 8½ %.

a) Value Thornhill Estates' freehold interests in each property. (18 Marks)

b) Value the leasehold interests of Holby Toys and Comfort Wear. (10 Marks)

c) What significance is the premium paid to the freeholder of 20 Stonegate? What effect, if any, does it have on the values of the two interests in this property? (5 Marks)

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2. (a) Brimax plc plan to move their administration offices to Scotland in 5 years time and have set aside a sum of £1.5 million for the cost of this future move. Brimax intend to invest this sum and two alternative investment properties are being considered. It is intended to sell whichever property is purchased in 5 years time.

Property A is a small factory workshop and Property B is a shop in a nearby town. Both properties are let at relatively low rents with rent reviews in 2 years and 3 years respectively. It is anticipated that expected capital appreciation over the next 5 years will enhance the company's finances.

The estate and finance departments have produced the following financial appraisal:

	Property A	Property B
Total Purchase Cost	£1,230,000	£1,450,000
NPV (Target Rate 9%)	£24,250	£22,400
NPV (Discount Rate 14%)	- £9,200	- £4,700

(i) Calculate the internal rate of return for each property. (9 Marks)

(ii) Explain the terms: target rate, net present value, internal rate of return. (6 Marks)

(iii) Comment on the above figures and the results of your calculations. What advice would you give? (6 Marks)

(b) A freehold valuation is required of a shop which is let on lease that has 3 years to run at a low rent which was fixed 7 years ago. Discuss the information you would seek to obtain in order to carry out the required valuation.
Use a suitable example to illustrate your answer. Explain each stage in the valuation approach. (Detailed calculations are not required) (12 Marks)

3. Attempt only TWO parts of this question.

(i) "The measurement of investment portfolio performance is not only about total returns, the measurement of risk is also significant."
Critically examine this quotation; in particular discuss the measurements referred to in the quotation.

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(ii) Tom holds a lease in respect of a shop which has twelve months to run. Tom has been informed that his landlord will not grant him a new lease when his current lease ends. Advise Tom on his position and whether he will be entitled to any compensation.

(iii) Compare the position of retail occupiers in the United Kingdom, where rent reviews are included in their lease, with retailers in a European country where rent indexation is used based on a cost of living index. Briefly consider the position in times when both the index and property values are falling.

(Question 3: Each part has equal marks. A total of 33 marks is available for any two parts attempted.)

4. Michael holds a leasehold interest in 24 The Thurloes, a shop in the main shopping area of a south coast town. The lease was granted in 1991 and now has 2 years to run at a rent of £53,000 per annum on full repairing and insuring terms. Michael now wishes to diversify his business but wants to ensure he has greater security of tenure in the shop.

   He has now approached Susan, the freeholder, as he wishes to surrender his lease and take a new lease for 14 years. Michael is prepared to pay a higher rent and has proposed a rent of £65,000 per annum on the same terms.

   Susan is prepared to grant a new lease provided that a satisfactory premium is paid at the start of the lease and that there is a rent review in the 7th year.

   Michael is now agreeable to these proposals. The full net rental value of the shop is £78,000 per annum and the yield is 6%.

   a) Advise Michael on the premium he is likely to have to pay if the new 14 year lease is granted (26 Marks)

   b) Michael has other financial commitments and instead of paying the sum suggested in (a) he would prefer to pay two equal premiums, one at the start of the lease and one at the end of 3 years. Susan agrees to this provided two satisfactory premiums are paid. Calculate the amount of the two equal premiums that should be paid instead of the sum suggested in (a). (7 Marks)

5. Ten years ago Cynthia purchased the freehold interest in Swallow House, an office building on three floors. In 1994 she let the property to Jason on lease for 14 years at a fixed rent of £66,000 per annum on full repairing and insuring terms. Jason paid a substantial premium at the start of the lease. At that time he occupied the entire premises.

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In 2000 Jason let the top floor to Mary on lease for 8 years at a rent of £29,300 per annum without review.
In 2001 Jason let the ground floor to James on lease for 7 years at a fixed rent of £33,100 per annum.
The first floor is still occupied by Jason.

Under the terms of their leases James and Mary are responsible for internal repairs to their own office suites.

Rental Values have risen by an average of 3.5% per annum over the past three years.

Eagle House, a similar but slightly larger office block, was let by the freeholder in December 2002 on lease for £115,000 per annum on full repairing and insuring terms. In February this year the freehold interest sold for £1,704,000.

(i) Value Cynthia's freehold interest in Swallow House. (11 Marks)

(ii) Value the THREE leasehold interests of Jason, Mary and James. (17 Marks)

(iii) If a survey revealed that substantial repairs to the roof are required, how would this affect the question of outgoings for any of the occupying lessees?
In what way would this be reflected in your answer? (5 Marks)

END OF QUESTION PAPER