UNIVERSITY COLLEGE LONDON

University of London

EXAMINATION FOR INTERNAL STUDENTS

For The Following Qualifications:-

Coll Dip *M.Sc.*

ESGP5: Valuation

COURSE CODE : **ENVSGP05**

DATE : **21-MAR-05**

TIME : **14.00**

TIME ALLOWED : **2 Hours**

05-C0015-2-40

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

Title of Paper: **ENVSGP05 Valuation**

21 March 2005

Time allowed: 2 hours

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

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1. Jason Brown plc occupy Flint Works, a factory on an industrial estate with good access to the M5 motorway. The factory is held on lease for 14 years from 1994 at a rent of £145,000 per annum on full repairing and insuring terms.
The company is planning to increase its production capacity. However, before making a final decision the company wants to ensure it has greater security of tenure. It has therefore offered to surrender its lease in return for a new lease for 21 years at a rent of £155,000 per annum on the same repairing and insuring terms.
The landlord, the freeholder, is prepared to grant the company a new lease but for a term of 14 years at a rent of £160,000 per annum with the lessee responsible for all repairs and fire insurance. There will also be rent reviews after 7 years and 10 years to full rental value. A premium is to be paid at the start of the lease.
Jason Brown plc has agreed to accept these terms.
The full rental value is £193,000 per annum and the open market yield is 8.5%.

(i) Acting between the parties assess the premium to be paid (28 Marks)

(ii) What difference, if any, would it make if there had been only one rent review to full rental value after 7 years? Explain the reasons for your answer. (*No further calculations are required for this part of the question*) (5 Marks)

2. Answer only TWO parts of this question

(i) "Investments which provide a hedge against inflation generally have lower yields than investments where growth is not anticipated,"

Consider this quotation and discuss the factors which influence the pattern of yields in the investment market.

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(ii) Laura occupies shop premises on a 14 year lease which is due to expire in December this year. Her landlord has hinted that he may require possession at the end of her lease. Laura is now worried especially as she carried out improvements to the shop 5 years ago at a cost of £10,500.
Briefly advise Laura on her position under the Landlord and Tenant Acts. State what additional information you would seek to obtain.

(iii) Explain why a sinking fund element is included in a leasehold valuation: Show how a sinking fund is incorporated in the appropriate years' purchase figure and briefly discuss the relevant factors which determine the rates of interest used in the valuation.

(Question 2: Each part has equal marks. A total of 33 marks is available for any TWO parts completed)

3.

(i) Your client wishes to purchase the freehold interest in two shops, 18 and 20 Princes Street.

18 Princes Street has a frontage of 30 ft and a depth of 75 ft. It also has a brick store at the rear of the shop with a floor area of 800 sq.ft. The shop is let on lease for 7 years from 2000 at a rent of £82,000 per annum on full repairing and insuring terms. A substantial premium was paid at the start of the lease.

20 Princes Street has a frontage of 22 ft and a depth of 62 ft. This shop was recently let in January this year at a rent of £81,250 per annum on full repairing and insuring terms.

The open market yield is 6.5%.

a) Value the freehold interest in both shops, and
b) Value the leasehold interest in 18 Princes Street (21 Marks)

(ii) Discuss the reasons for zoning shop rentals and explain how the approach can be adapted:

a) for a shop which has frontages to two separate parallel shopping streets, and
b) for a shop which has a return frontage to a minor shopping street at right angles to the main shopping frontage.

(12 Marks)

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4.

(i) Explain how you would calculate the net present value of an investment with a short life expectancy that is available for purchase at a given price.
Use your own example to illustrate your approach and explain the meaning of the net present value obtained

(12 Marks)

(ii) What further calculations would you make to find the internal rate of return of this investment?
(No calculations are required in this part of the question) (9 Marks)

(iii) Susan occupies a shop which she holds from the freeholder on lease for 10 years from 1996 at a fixed rent of £60,000 per annum on full repairing and insuring terms. Susan paid a premium of £20,000 at the start of the lease.
The current full rental value on full repairing and insuring terms is £88,000 per annum and the open market yield is 6%.

The freeholder has indicated that he will grant Susan a new lease in 2006 for 14 years with a 7 year rent review. However, he proposes to change the basis, so that he will be responsible for external repairs and fire insurance and the rent will reflect this. Susan is prepared to accept this proposal.
Susan has recently been advised that repairs to the roof costing £8000 are now required.

a) Advise Susan on the rent she should be prepared to pay under the new lease. Briefly consider the question of outstanding repairs.

b) Value the freehold interest in the property and comment on the significance of the premium paid in 1996.

(12 Marks)

5. Mary owns the freehold interest in 24 Albert Square, an office building on 3 floors. Nine years ago she let the entire premises to Jane on a lease for a term of 25 years with the freeholder responsible for external repairs, repairs to the common parts and fire insurance. The lease has 7 year rent reviews to full rental value and the current rent being paid is £92,000 per annum.
Two years ago Jane let the ground floor to Tony on a lease for 7 years at a rent of £33,000 per annum.
In February this year Jane let the top floor to Simon on a lease for 5 years at a rent of £30,500 per annum. The first floor is now vacant.
Simon and Tony are both responsible for repairs to their own suites.
There is no lift and all floors have the same net floor area.
Rental values have been increasing at 3% per annum over the past 3 years. The current rental value of the whole office premises is £98,000 per annum, on the basis that the lessees are responsible for repairs to their own office suites. The open market yield is 7%.

(i) Value Mary's freehold interest. (14 Marks)
(ii) Value the three leasehold interests of Jane, Tony and Simon. (19 Marks)