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OBAFEMI AWOLowo UNIVERSITY, ILE-IFE
FACULTY OF ENVIRONMENTAL DESIGN AND MANAGEMNT
DEPARTMENT OF ESTATE MANAGEMENT

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Plain Semester Examination, 2010/2011
Bsc. Estate Management, Quantity Surveying and Urban and Regional Planning

ESM 202: Introduction to Valuation II

Instruction: Answer questions 1 and any other two. Assume and state any data relevant to a full answer. Assume freehold rate is 7%, sinking fund is 3% and 40k tax. Please show all your workings in your booklet.

Time Allowed: 2hrs 30 minutes

- (1) Kanayo Investment Bureau holds the residue of 99 years building lease granted at fixed ground rent of N5,000 from the freeholder Clandestine. The building lease has 67 years unexpired. Four years ago, Kanayo Investment Bureau let the office edifice to Adetutu at a rent of N50,000 p.a. on 20 years full repairing and insuring lease. Two years ago Adetutu sublet the premises to Obiedelu under a 10 years full repairing and insuring lease at a rent of 70,000 p.a. with a rent review at the middle of the lease by N20,000. Milestone property, a full time property investment expert, just acquired investment bureau and wishes to become the freeholder in possession.
Value all interests and advise the company on how much it should offer all the parties if their interests are to be purchased, one at a time, at a 50150 deal. Recent evidence revealed that the leasehold interest in the adjacent office property ha just been sold for N850,000. The lessee was enjoying a profit rent of N35,000 p.a. and hold a 25 years. Full repairing and insuring lease at a rent of N80,000.
30 marks
- (2) Prime Investment holdings has a freehold interest on a shop propel-ty suitably located in a town centre. The property has an unexpired term of 15 years on full repairing and insuring lease at a rent of N240,000 p.a and a rack rent of N500,000 p.a. The lessee is to surrender this lease and spend N800,000 to carryout an improvement on the property at the commencement of the new lease. This development is capable of increasing the rental value by N200,000 p.a. The lessee is to be granted 30 years lease and to pay premiums of N400,000 and N600,000 in the 10th and 20th years of the new term. How much rent should be reserved in the new lease.
15 marks
- (3) P.K. Johnson and Company holds a freehold interest in a commercial premises located at 16, Opebi Road, Ikeja Lagos. Two years ago, the premises was let on Full Repairing and insuring lease to JBT Bank at a rent of N2 million p.a. for 10 years with a provision of the rent rising by a half after 5yrs in occupation.

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A similar property located at 3, Toyin street, which is adjacent to the subject road, was let at N3.5 million pa. Value P.K. Johnson's interest using:

- (i) Term and Reversion 5 marks
- (ii) Layer method 5 marks
- (iii) Equivalent yield 5 marks

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(4) Adventure developer is considering three alternative design proposals of 5-Bedroom bungalows. The details of the developments are contained in the table below. You have just been consulted by the developer to advise by means of cost-in-use analysis on which is the most cost effective of the three options.

Item	Design A (₦)	Design B(₦)	Design C (₦)
Site acquisition cost	100,000	400,000,000	550,000,000
Anticipated life of building	60 years and above	30 years or more extended by 35years due to ~-building	60 years
Initial development cost	2,400,000	2,000,00	2,000,000
Redevelopment	200,000,000 in 35 years' time	200,000 in 30 years time	—
Future replacement certain services	350,000,000 after 25 years and 50 years	400,000,000 after 30 years and 50 years	350,000 after 20 years and 40 years
Discount rate	7%	7%	7%
Annual sinking fund	3%	3%	3%
Annual costs			
- Electricity	54,000,000	40,000,000	42,000,000
- Maintenance	45,000,000	35,000,000	20,000,000
- Cleaning	8,000,000	12,000,000	15,000,000

15 marks

(5) Write short notes on the following terms:

- (a) Cost-in-use 3 marks
- (b) Virtual and sitting rent 3 marks
- (c) Premiums 3 marks
- (d) Marriage valuation 3 marks
- (e) Methods of valuation 3 marks

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