NATIONAL UNIVERSITY OF SINGAPORE

GEM2000 – FOUNDATIONS OF REAL ESTATE APPRAISAL

(Semester I: AY2014-15)

Name of Examiner: Mr Cheng Fook Jam

Time Allowed: 2 hours

INSTRUCTIONS TO CANDIDATES

1. Please write your student number only. Do not write your name.
2. This assessment paper contains **THREE** questions and comprises **FIVE** printed pages.
3. Students are required to answer **ALL** questions.
4. Students should write the answers for each question on a new page.
5. The marks for each question are shown in brackets and add up to 100.
6. This is an OPEN BOOK examination.

Question 1 (40 marks)

Golden Years Limited is currently evaluating the feasibility of developing a private retirement village in Coney Island, located off the north-eastern coast of Singapore. Targeted at ambulant senior citizens, the project will include on-site amenities such as clinics and restaurants for its residents.

Assume that a real estate market analysis cum valuation report commissioned by the firm for the proposed project included the following information:

(i) Given the widening price gap between an HDB flat and a private condominium unit, it is now more difficult for HDB households to switch from public to private housing especially when the stringent curbs on home loans are still in place.

(ii) Based on World Bank data, Singapore has the highest proportion of older residents and the fastest ageing population in South-east Asia. It is greying much faster than other developed nations such as Australia, the United States and most European countries.

(iii) With effect from April 2015, the Lease Buyback Scheme will be extended to four-room HDB flats as well so that more elderly flat owners will be able to sell part of their lease back to the Government for retirement income. They will also be able to keep more cash upfront and have a choice of how many years to retain.

(iv) The tender for a 99-year leasehold executive condominium site in the Sembawang district closed on 30 September 2014 with just two bids. Market analysts highlighted that the low number of bidders for the site was yet another sign of the cooling property market.

(v) Touted as Singapore's first ‘retirement village’, The Hillford located in Jalan Jurong Kechil was sold out completely on the first day of sales when the project was launched in January 2014. The 281-unit project comprising 1-bedroom units as well as 2-bedroom units were snapped up by senior citizens as well as investors.

Evaluate critically whether the said information should be included in the real estate market analysis cum valuation report for the proposed retirement village. Give reasons to support your answer.

(40 marks)

Question 2 (30 marks) – Answer Part (A) or Part (B)

Part (A)

Mr Tan is considering the financial viability of investing in one of the two following properties, details of which are summarised in the following table:

	Property A	Property B
Asking price	$1,200,000	$1,450,000
Tenure	Leasehold: 99 years with effect from 1 Nov 2010	Freehold
Current market net operating rental income (NOI)	$50,400 per annum	$53,650 per annum
Initial yield based on asking price	4.2% per annum	3.7% per annum

Mr Tan has received advice from a friend that he should invest in Property A given that its initial yield of 4.2% per annum is higher than that of Property B. Furthermore, its asking price is also “cheaper” than that of Property B.

Should Mr Tan heed his friend’s advice? Provide reasons to justify your view.

(30 marks)

OR

Part (B)

Lion Limited is planning to purchase a freehold shophouse which is currently occupied by Mr Wong who has the right to use it for another 4 years under a contractual arrangement. The net operating rental income (NOI) receivable by the landlord under the existing tenancy is $90,000 per annum for each of the next 4 years. The current market NOI of the property is $180,000 per annum.

You have gathered the following market data:

(i) A vacant freehold shophouse in the vicinity was recently sold for $3.7 million, reflecting an initial yield of 5.14% per year.

(ii) Tenancies of shophouses are typically held for a term of 3 years.

(iii) The required rate of return for investments in shophouses of comparable risk class is 8% per year.

Advise Lion Limited on the market value of the subject property taking into consideration the existing tenancy. Explain and justify the various inputs used in your valuation.

(30 marks)

<u>Question 3 (30 marks) – Answer Part (A) or Part (B)</u>

<u>Part (A)</u>

Consider the following conversation between 2 market analysts:

<u>Mr Gek</u>:

“The high residential land prices paid by developers during the boom period from 2010 to 2012 can be explained by the fact that they were expecting the residential market to continue the bull run for a few more years till 2015.”

<u>Mr Gem</u>:

“This only goes to affirm the widely held view that the high condominium prices achieved in the 2010-2012 period was triggered by the high land prices paid by developers for their residential projects during the same period.”

Discuss, with supporting reasons, whether you are in agreement with the views espoused by the 2 analysts.

(30 marks)

OR

<u>Part (B)</u>

Fuel Limited is considering the acquisition of a 30-year leasehold vacant site with planning approval to build a petrol station.

After being appointed by the firm to estimate the current market value of the site, you have gathered the following information pertaining to the real estate development:

(i) The construction period for the project is about 3 years.

(ii) The construction cost (inclusive of professional fees) is $25 million.

(iii) The property tax payable per year during the construction period is 10% of the Annual Value (AV) of the site. The AV can be deemed as 5% of the vacant land value.

(iv) The cost of financing the construction cost and property tax payments is 8% per annum.

(v) Marketing and legal cost for selling the completed project is estimated at 2% of the estimated selling price.

(vi) The cost of financing for the purchase of land is 6% per annum.

(vii) The legal fee and stamp duty associated with the purchase of land is 4.5% of the land price.

(viii) The profit margin for real estate development of such properties is 15% of the gross development value.

The forecasted revenue for the first year of operation of the petrol station business is $20 million. Operating expenditure
(excluding property-related outgoings such as repairs and maintenance, property tax and fire insurance of premises) is about 55% of revenue. The market value of the movable assets employed in the business is around $3 million. The opportunity cost of capital for movable assets is 10% per annum. The estimated economic life of the movable assets is 5 years. A fair share for the entrepreneur is around 25% of the divisible balance.

Further market analysis suggests that the required rate of return for investing in this class of properties is 8.5% per annum. Extrapolation from the other property sectors indicates that the rental growth rate for petrol stations should be in the region of 2.5% per annum. Tenancies for comparable class of properties are typically held for a term of 3 years.

Use the given information to estimate the current market value of the subject vacant site. Show the rationale of your valuation approach and calculations clearly.

(30 marks)

END OF PAPER