



## Section A

1. A 10,000m<sup>2</sup> distribution warehouse is let on a 20 year full repairing and insuring lease with five yearly upward only rent reviews from 1 May 2003 at £50/m<sup>2</sup>. A similar warehouse of the same size was recently let at £70/m<sup>2</sup> and then sold on to an institution for £14 million. Value the freehold interest as at today's date using a modern growth explicit valuation, providing comments on the various elements of the calculation. Long dated gilts are yielding 4%.
2. Statistical approaches used in property appraisal can incorporate elements of risk and uncertainty.' Discuss.
3. Compare and contrast the hardcore method with traditional term and reversion calculations and show, by reference to examples, how in the case of the former, the incremental yield is calculated.

## Section B

4. How successful have recent measures been in making investment in commercial and residential property more accessible to small investors?
5. The location of a golf course is as important as its design and facilities. Discuss this statement in the light of leisure trends in the past 20 years.

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6. You have been provided with the following accounts for a small freehold hotel restaurant. Using the profits method, provide a valuation and outline the various steps required in reconstituting the accounts.

<u>Sales</u>	£
Rooms	100,000
Food	150,000
Total Sales	250,000
<u>Cost of sales</u>	100,000
Total Gross	150,000
Profit	
<u>Operating Expenses</u>	£
Payroll	60,000
Linen	3,000
hire/Laundry	
Heating & lighting	4,000
Print/post /phone	1,000
Advertising	3,000
Flowers	1,000
Legal	700
Transport	3,000
Equipment hire	4,000
Repairs & Renewals	2,750
Rates & Water	3,000
Insurance	1,500
Bank Charges	7,000
Depreciation	4,000
Accountancy	1,5000
Stock taking	900
Mortgage	4,500
Interest	
Sundry expenses	1,650
Total over heads	120,000
<b>Net profit</b>	<b>30,000</b>
<b>Net yield</b>	<b>12%</b>

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- 7 Outline the main changes to liquor licensing that were introduced in 2005. What are the implications for pub and club companies?
  
- 8 Most league football clubs will not be able to deliver profits, without significant reductions in wage costs. Discuss this statement in the light of recent reports both in the press and from their professional advisors.

## PROPERTY INVESTMENT

### FORMULA SHEET

#### Implied Rate of Rental Growth

$$(1 + g)^t = \frac{\text{YP in perp. @ } k - \text{YP } t \text{ yrs. @ } e}{\text{YP in perp. @ } k \times \text{PV } t \text{ yrs. @ } e}$$

$g$  = implied rate of rental growth rent

$t$  = review period

$k$  = all risk yield

$e$  = equated yield/target rate of return

#### Constant Rent Adjustment

$$\text{Adjustment Factor} = \frac{(1 + e)^t - (1 + g)^t}{(1 + e)^t - 1} \times \frac{(1 + e)^n - 1}{(1 + e)^n - (1 + g)^n}$$

$e$  = equated yield/target rate of return

$g$  = implied rate of rental growth

$t$  = number of years between review in subject lease normal

$n$  = review period

#### Real Value Leasehold Interest - Valuation Formula

$$\left. \begin{array}{l} \text{Rent received} \times \text{YP } t \text{ yrs @ } e \times \frac{\text{YP } n \text{ yrs @ } i}{\text{YP } t \text{ yrs @ } i} \end{array} \right\} - (\text{YP } n \text{ yrs @ } e \times \text{rent paid})$$

$t$  = rent review period

$e$  = equated yield

$n$  = length of leasehold period

$i$  = inflation risk free yield

#### Inflation Risk Free Yield

$$\frac{(1 + e) - 1}{(1 + g)}$$

$e$  = equated yield

$g$  = implied rate of rental growth