



W1-2-60-1-6
JOMO KENYATTA UNIVERSITY
OF
AGRICULTURE AND TECHNOLOGY
UNIVERSITY EXAMINATIONS 2017/2018

**YEAR IV SEMESTER I EXAMINATION FOR THE DEGREE OF BACHELOR OF
SCIENCE IN LAND RESOURCES PLANNING AND MANAGEMENT**

ALP 2406: PRINCIPLES OF LAND VALUATION AND TAXATION
DATE: JANUARY 2018 **TIME: 2 HOURS**

INSTRUCTIONS

- Answer all questions in section A and any two (2) questions in section B
- Read the questions carefully

SECTION A

1)

- a) Briefly describe the procedure for stamp duty valuations in Kenya (6 marks)
- b) Discuss the limitations of the Income and Cost approaches to real property valuation (8 marks)
- c) Explain the four (4) ways in which leasehold interests can be created (8 marks)
- d) A go down is occupied on a lease with 10 years unexpired at a rent of Kshs 1,200,000 per year for the next six years and Kshs 1,400,000/- per year thereafter. It is held on full repairing and insuring terms and the full rental value is Kshs 1,800,000/- per year. The current freehold risk is 10%. Value the leasehold interest. (8 marks)

SECTION B

2)

- a) A leasehold interest is often referred to as a wasting asset. Explain. (2 marks)
- b) Value the leasehold interest in a property producing a net income of Kshs 250,000/-. The property is held on a lease with 20 years to run and a return of 7% (remunerative) is required on the capital invested given that the sinking fund will accumulate at 3% and the property is taxable at 40% (8 marks)
- c) An investor placed into a savings account Kshs 50,000 seven years ago and then a further Kshs 60,000 three years ago. These sums have earned net interest of 4.5 per cent throughout. How much does the investor now have saved? (6 Marks)
- d) A proprietor knows that repairs and other maintenance will be needed in five (5) years to a cost of Kshs 500,000/-. What yearly amount does he have to reserve in an interest-carrying account at 10% interest in order to have sufficient funds after the 5 years? The fund reservations are made at the end of each year. (4 Marks)

3)

- a. Freehold interests are the largest form of ownership that can be enjoyed in real estate. A freeholder can dispose off his land and use it in the way he requires subject to societal controls. Discuss briefly some of these controls. (8 marks)
- b. Mr. Kamau is the freeholder of a commercial building with a net lettable area of 12,000 square feet. The net rent is Kshs 1,200/- per square foot per annum. Twelve years ago, Mr. Kamau let the whole block to Mr. Patel on a 30 year lease at a net rent of Kshs 900/- per square foot per annum. Four years ago, Mr. Patel sublet the property to Mr. Singh at a net rent of Kshs 1,000/- per square foot per annum for 20 years. Assuming that the sub-leasehold investment is a 10% risk and the annual sinking fund is 3% and the property being commercial attracts tax at 40%.
- a. What is the value of Mr. Kamau's interest? (5 marks)
- b. What is the value of Mr. Patel's interest? (5 marks)
- c. What is the value of Mr. Singh's interest? (2 marks)

4)

- a. Give the three sets of tables often used in the valuation of freehold interests. Distinguish these tables with those used in the valuation of leasehold interests (6 marks)
- b. Write short notes on following statutory valuations:
- Valuation for compulsory acquisition - *ch 200 ps* - *public goods* (4 marks)
 - Valuation for rating - *admin arm* - *regular* *land values* *deal* *taxation* *vals*. (4 marks)
- c. You have been instructed by a Bank to carry out a market valuation of a freehold property for mortgage lending purposes. The property is located on Riara Road, Nairobi City. The improvements consist of a four (4) bedroom townhouse. The property is let out to a tenant for the next five years at a monthly rent of Kshs 250,000/-. When the lease expires, the rent will increase to Kshs 350,000/- per month. The property is in good structural and decorative state of repair. The outgoing are estimated at about 15% of the income and the opportunity cost is 8% (6 Marks)

$$14.400000 = 2 \times 1$$