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JOMO KENYATTA UNIVERSITY OF AGRICULTURE AND TECHNOLOGY

UNIVERSITY EXAMINATIONS 2018/2019

FOURTH YEAR FIRST SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF SCIENCE IN LAND RESOURCES PLANNING AND MANAGEMENT

ALP 2406: PRINCIPLES OF LAND VALUATION AND TAXATION

DATE: DECEMBER 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. Define the following terms:

- Mortgage Lending Value (2 Marks)
- Land Taxation (2 Marks)
- Forced Sale Value (2 Marks)
- Value in Use (2 Marks)
- Unimproved Site Value (USV) (2 Marks)

b. A client owns a piece of land. He anticipates being able to gain planning permission to develop it in three years' time, by when it is estimated that its market price will be Kshs 16,000,000. How much the site could be sold for today if it is considered to be an investment that would attract a 6.5 per cent per annum yield? (4 Marks)

c. Your client is interested in buying a leasehold interest in a small workshop unit situated in Industrial area of Nairobi city. The current lease has four years left to run, without rent review, at a rent of Kshs 420,000 per month net. The estimated current market rent for the property is Kshs 600,000 per annum net and all risks yields for similar leasehold properties in this location are currently 9.5 per cent.

- Advise the client how much she should expect to pay to buy the unexpired leasehold interest in the workshop allowing for tax at 40 per cent and gross sinking fund interest rate of 3 per cent. The yield rate for 4 yrs @ 9.50%+ 3.0% ASF & tax @ 40% is 2.027. (5 Marks)
- Calculate and explain what an estimate of the freehold investment market value would be in the same workshop. (7 Marks)

d. Differentiate between statutory and non-statutory valuations and give examples for each of them. (4 Marks)

SECTION B

2.

a. Briefly describe the following concepts as used in land taxation

- Principle of certainty (2 Marks)
- Principle of equity (2 Marks)
- Principle of economy (2 Marks)
- Principle of convenience (2 Marks)
- Unimproved site value tax (2 Marks)

b. Distinguish between single property valuation and mass property valuation (4 Marks)

c. A factory is occupied on a lease with 11 years unexpired at a rent of Kshs 66,000 per month net for the next 5 years and Kshs 92,000 per month net thereafter. If it is held on full repairing and insuring terms and the full rental value is Kshs 120,000 per month net and the current freehold risk is 11% value the Leasehold interest. Ignore tax and annual sinking fund.

(4 Marks)

d. Value the leasehold interest in a property producing a net profit rent of Kshs 20,000/- per month. The property is held on a lease with 15 years to run and a return of 7.7% is required on the capital invested. Ignore sinking fund and tax (2 Marks)

3.

a. Discuss any two (2) bases of land taxation applicable in Kenya and highlight the strengths and weaknesses of each basis (8 Marks)

b. Explain any two (2) purposes for which a real estate valuation may be required

(4 Marks)

c. Value a 10 year old building with a useful economic life of 60 years. Assume that the building has a built up area of 6,500 square metres and sits on a land area of 2 acres with a leasehold value of Kshs 2,000,000 per acre, 10% professional fees and unit construction costs are Kshs 50,000 per square metre. (7 Marks)

d. How would the resulting value in 3(b) above vary if it were for insurance purposes only?

4. (1 Mark)

a. Distinguish between market value and forced sale value (4 Marks)

b. Discuss any four (4) non-market approaches to environmental valuations (8 Marks)

c. Mr. Singh is the freeholder of a residential property whose rental level is Kshs 65,000 per month net. Sixteen years ago Mr. Singh let the whole block to Mr. Kamau on a 40 year lease at a net rent of Kshs 55,000 per month. Five years ago Mr.Kamau sublet the property to Mr. Mugambi at a net rent of ksh 60,000 per month for a term of 18 years. Value the interest of Mr. Singh, Mr. Kamau and Mr. Mugambi assuming that the sub leasehold investment is a 9% risk and there is no annual sinking fund and that the property being residential attracts no tax. (8 Marks)