



THE HONG KONG INSTITUTE OF SURVEYORS

GENERAL PRACTICE DIVISION

ASSESSMENT OF PROFESSIONAL COMPETENCE

FINAL ASSESSMENT 2012

PART I ASSESSMENT ON 4 OCTOBER 2012

QUESTION 1 – Valuation, a *compulsory* question

In the course of answering this question, you are required to make appropriate and reasonable assumptions [for instance, on the exact locality of the property in question] to arrive at your opinion of value of the subject property. In your valuations, you are required to give each Level's value (except the car park which to be valued as a unique unit) with calculation by appropriate investment method and afterward to give a final value of the property with an appropriate calculation as a whole. Please be reminded that this is not a business valuation question, it is a real property valuation question.

As a General Practice Surveyor you are instructed by the owner of a multi-let 11-storey car park/office block to conduct a valuation of his interest in the property (the property) for his own reference. The client also requested for the calculation and breakdown of the valuations of each shop, each level and the car park for his reference. The details of the property are as follows:

The property is a twenty years old 11-storey car park/office block with the ground floor being used for retail shops and car park, first to eighth floors for car park, and the ninth and tenth floor for office. Each floor of the property is served by passenger lifts and common staircases. The property is located in a secondary location and close to a light rail station providing light rail services to the CBD of the city within 20 minutes. The property is located in a mixed development area with some low to medium rise composite buildings, commercial and communal facilities. Traffic network to the neighborhood residential areas is good. Strata title is not allowed for the car park. Details of the occupancy of the property are as follows:

Level	Description
Portion of G/F	<p>Parade of three shops facing the street</p> <p>One of the tenants (in the middle of the parade) renewed the lease 8 months ago for a new 3 years term and is paying \$15,000 per month each. The second unit (at one end of the parade and adjoining to the lift lobby of the building) is let to a NGO (Non-government organization) on a short term licence, at a rent of \$5,000 per month. The last unit (a corner shop and at the other end of the parade) is negotiating a renewed term for another 3 years with the current lease expiring two months later. The rent under negotiation is approximately \$23,000 per month. The Saleable Area of each shop is the same, at 40 sq. m.</p> <p>*Per the client instruction - calculation of each shop unit and value is required to come up with that portion of G/F value.</p>
Remaining Portion of G/F, 1/F – 8/F	<p>The car park comprises 250 spaces. A car park operator runs the car park and charges 25% of turnover as management fee. The provided analysis indicated that the average occupancy of the car park is 75% in the last three years, with an average income of \$150 per occupied parking space per day in the recent twelve months. Outgoings such as ticketing costs and repairing costs are about 20% of turnover.</p> <p>*Per the client instruction - calculation of the car park as a unique interest is required.</p>
9/F – 10F	<p>Lettable area of each floor is 500 sq. m. and the market rental is \$100 psm per month. A tenancy schedule is set out below:</p> <p>9/F is occupied by an audit and secretarial support firm for an unexpired 28 months term at a passing rent of \$46,000 per month.</p> <p>10/F is occupied by a surveyor firm with a renewed unexpired 5 months term at a passing rent of \$36,000 per month.</p> <p>*Per the client instruction - calculation of each level and value is required.</p>
Roof	An opened roof top garden with two machine rooms.

All the tenancies are under internal repairing terms without break clause. The property is managed by the owner directly. The rentals payable are inclusive of management fees and ground rent. There is in need to repair the roof and the common areas, and the cost is estimated to be \$300,000. Recent transactions in the locality suggested a yield of 5% for shop and for the office. The net yield for car park in the prime location of the city is around 5%.

Please advise your client on the market value of the property with reasonable assumptions, clear calculation steps and explanatory notes, if necessary.

** End of Question 1 **

QUESTION 2 - Land Resumption and Compensation

Your client owns and resides in a residential unit (a floor) in a 6-storey tenement building zoned “Residential (Group A)” on the Mong Kok Outline Zoning Plan in the middle of a terrace of similar 6-storey tenement buildings which are all going to be resumed by the Government under the Lands Resumption Ordinance, Cap. 124 for the purpose of urban renewal. The area of the site on which the subject building is situated is about 100 sq.m whereas the area of the total sites to be resumed is up to 1,200 sq.m. While you find that each of the 6 floors is held by different individual owners and each is entitled to 1/6th of the share of the lot on which the building is erected. No adjoining lot is owned by one owner and there has been no scheme for development for any of the site involved save for this urban renewal scheme by the Urban Renewal Authority.

- (a) Please advise the heads of compensation (including ex-gratia allowance, if any) that your client is entitled under the prevailing Government policy.
- (b) Please also explain whether compensation may be assessed based on the development value of the site.
- (c) Assuming your answer to (b) above is in the affirmative, please explain whether your client is entitled to compensation for removal.

**** End of Question 2 ****

QUESTION 3 - Rating Valuation

Your client, Mr. Chan, owns two ground floor shops (Shops A and B) fronting onto a secondary street, each shop measures 3 metres wide by 15 metres deep. Three years ago, both shops were let to a clothing store operator under a single tenancy who had demolished the partition wall between the shops and erected a full size timber cockloft for storage. The premises are now occupied as a clothing store. In March this year, Mr. Chan received two rates demands informing him that the new 2012-13 rateable values (RV) for Shops A and B had increased by almost 20% to \$516,000 and \$570,000 respectively. Mr. Chan felt aggrieved by the new rateable values and served Proposals on RVD in April to object to the 2012-13 RVs.

Mr. Chan was dissatisfied with the 2012-13 RVs for his two shops for the following reasons:

- i) Although shop rents in the area had increased in the whole year of 2011, he noticed that since Feb 2012, several shops nearby had their rents reduced by as much as 20% upon lease renewals.
 - ii) In March 2012, as part of the programme to smooth the road traffic in the area, the traffic light pedestrian crossing outside shop B was removed. As a result of this, the tenant of his shops complained that business had worsened and asked for reduction of rent of 10%.
 - iii) Since the subject two shops were combined as a single unit, RVD should assess the two shops as one unit and there should be a discount for single assessment.
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- a) Please advise your client on the basis of assessment of rateable values. In particular, please elaborate on how the rateable values of the subject two shops were determined and discuss the various physical attributes that affect the rateable values of shop premises.
 - b) Please discuss the possible outcome(s) of your client's lodging of Proposal to alter the 2012-13 RVs of the subject shops including, but not limited to, whether your client's arguments set out above will warrant a reduction in RVs and subsequently in the amount of rates payable. You should make reference to the relevant provisions of the Rating Ordinance where appropriate.

**** End of Question 3 ****

QUESTION 4 - Asset Management: Property Management

Under section 18 of the Building Management Ordinance (“BMO”), an incorporated owner” shall-

- (a) maintain the common parts and the property of the corporation in a state of good and serviceable repair and clean condition;
- (b) ...;
- (c) do all things reasonably necessary for the enforcement of the obligations contained in the deed of mutual covenant (if any) for the control, management and administration of the building.”

You are the Manager of a residential estate comprising a multi-story building owned by different owners subject to a Deed of Mutual Covenant under which, each of the owners covenants with the others

”Not to make any structural alternations in the flat or part of which he is the owner which may damage or affect or interfere with the use or enjoyment of the other parts of the said premises and the said Building or cause any inconvenience to the other occupiers nor to make or cause any inconvenience to the other occupiers nor to make or cause any alternation injury damage or interference to the Common Areas or Common Facilities or the maintenance thereof nor to cut or injure the cement concrete flooring columns beams or girders of the said Building nor to do anything whereby the structural strength thereto may be affected.”

You are now requested to advise if the Incorporated Owners may have the right in

- (i) taking action against an owner on the top floor compelling him to close an opening constructed at the floor slab of the roof above also owned by him;
- (ii) taking action against another owner who has taken down the partition wall between the 2 units they owned. It is not disputed that the wall is not load bearing wall;
- (iii) passing a resolution funding the defence of a defamation action against its Chairman in his course of pursuing management fees by an owner of the building in arrears.
- (iv) enforcing a House Rule contained in the DMC that “No dog may be brought or kept upon any part of the Estate or the Common Areas of any building therein” despite the DMC provided the owners shall have “the sole and exclusive right and privilege to hold use occupy and enjoy to the exclusion of the First Owner All That ... Flat ...”

Please answer EACH of the above four queries by firstly giving either “Yes” or “No” and explain your rationale with support of any case law, if necessary. You are, however, not required to cite the name of any court decision in order to support your answer.

**** End of Question 4 ****

QUESTION 5 - Asset Management: Landlord and Tenant

On Day 1, Andy Ho, who works for Property Consultants Limited, went with a client Mr. X to have site inspection of Flat A on 10/F of a Building (“Flat A”). After inspection, Mr. X left. Whilst Andy was still at the 10/F lift lobby, Madam B came out of Flat B and identified herself as the owner of Flat B of the 10/F (“Flat B”); she asked him (Andy) to give an offer to Client X at 90% of the asking price of Flat A subject to 3% commission to Andy on successful deal.

On Day 2, Andy met Mr. X who rejected Flat A. Andy introduced Flat B to Mr. X who then requested inspection. In order to close the deal soonest with 3% commission, Andy replied to Mr. X (without contacting Madam B) that no inspection of Flat B could be arranged. Mr. X then asked of the physical conditions of Flat B, Andy confirmed that Flat B was in the same condition of Flat A (fully furnished) which they visited the day before [i.e. on Day 1]. Client B hesitated; but then Andy attempted to influence Mr. X by saying that the price for Flat B was below the market price and that if Mr. X did not accept the offer he would let his other client accept the offer immediately. Acted upon what Andy said to him, Mr. X signed the preliminary agreement for sale and purchase at exactly Madam B’s proposed price when Andy said that the terms are usual terms and nothing further.

On Day 3 the following facts were confirmed:

- (a) Andy did not do anything after the conversation with Madam B until he met Mr. X on Day 2.
- (b) Flat A was fully furnished whereas Flat B was subject to developer’s standard provisions.
- (c) Andy had no other client interested in Flat B.
- (d) The preliminary agreement contains an entire agreement clause.
- (e) Mr. X found out that the concluded price of Flat B was 10% higher than the market price of the same and Andy Ho was well aware of that.

Comment on Andy Ho’s conduct throughout the process of agency on the subject deal.

An extract of some legislation on the next 2 pages may be relevant to the answer to this question.

Estate Agents Practice (General Duties and Hong Kong Residential Properties) Regulation (Cap. 511C)

Section 8

(1) When seeking an instruction from a client, a licensee shall not supply any information to the client which is false or misleading in a material particular in relation to a residential property.

Section 10

A licensee shall-

- (a) assist in making arrangements for the inspection and viewing by a purchaser of a residential property (including a car parking space and common areas if applicable) and accompany the purchaser for such inspection and viewing unless otherwise instructed by the purchaser;
- (b) not arrange an inspection and viewing by any person of a residential property without the prior consent of the vendor of the property;
- (c) before the signing of an agreement for sale and purchase or a lease, establish what is to be included in the disposition of the residential property concerned and prepare a written inventory thereof.

Section 11

A licensee shall-

- (a) not cause or permit a claim to be made of the existence of an offer from a purchaser unless the offer exists;
- (b) where information and comparables on residential property prices and rentals have been supplied to a client for reference or comparison, ensure that the information or comparables supplied do not misrepresent the value of the residential property concerned;
- (c) not exercise any undue influence on a vendor or a purchaser for the purpose of inducing him to enter into an agreement for sale and purchase or a lease;
- (d) keep a written record of all offers in respect of a residential property;
- (e) present an offer to a client for acceptance as soon as is practicable after receiving it;
- (f) subject to section 13(2)(b), inform a client of all offers received in the order he receives them and present them in an objective and unbiased manner.

Section 13

(1) A licensee shall, before a client of the licensee who is not legally represented enters into an agreement for sale and purchase or a lease of a residential property-

(a) explain to the client the meaning of each clause of the agreement or lease, as the case may be, and draw to his attention the meaning of any essential terms and provisions thereof; and

(b) recommend that the client seek legal advice if the client does not understand any part of the explanation given under paragraph (a).

(2) A licensee shall not-

(a) continue to market a residential property after the signing of an agreement for sale and purchase or a lease in respect of the property;

(b) be obligated to disclose any further offers to the vendor concerning the property.

(3) A licensee shall, for the purpose of avoiding the fraudulent misrepresentation of identity in an agreement for sale and purchase or a lease of a residential property, take all practicable steps to ensure that the name of the vendor is correct (which steps may include, if the vendor is an individual, collecting a copy of the vendor's identity card within the meaning of the Registration of Persons Ordinance (Cap 177) or other identification document). (L.N. 176 of 1999)

(4) A licensee acting for the vendor of a residential property shall, immediately before an agreement for sale and purchase or a lease of the property is entered into, cause to be carried out a land search in the Land Registry in respect of the property and supply a copy of the land search to the purchaser of the property.

**** End of Question 5 ****

QUESTION 6 - The Practice of Agency

International Property Fund (“IPF”) recently acquired a property investment company which holds a property portfolio in Hong Kong. Property Consultant Limited (“PCL”) has been appointed as the Asset Manager of the said property portfolio. You as a staff member of PCL is in charge of IPL’s case. The managing director of IPF (“Mr. MD”), after having taken site inspection of all the properties acquired, seeks advice from Amy Chan on the following matters in respect a block of Chinese tenements (“the Building”) in Shanghai Street near Jordan Road:

- (a) A few yellow light panels are mounted on the external wall of flats on upper floors of the Building. Mr. MD would like to know whether there are protections available to the landlord’s position against tenant’s using their rented premises for illegal or immoral purposes.
- (b) The space underneath the staircase is occupied by an old man for use as a mini-candy store. He has never signed any written document but there is record that he pays an annual sum of HK\$6,000. Mr. MD would wish to ask the old man to leave so. Mr. MD asks you about the course of action that IPF as the ultimate owner of the Building should take.

One ground floor shop at street level is subject to a three-year tenancy with one year unexpired. The tenant of that shop asks Mr. MD whether he can get back at the expiration or sooner determination of the tenancy the 3 months’ rental deposit which is still held by the previous owner. Mr.MD asks you to suggest possible ways of dealing with the matter.

**** End of Question 6 ****

QUESTION 7 - Development

A) Particulars of the Lot

- a. Lot Number & Address : Inland Lot No. 999 & Inland Lot No. 1000 (the “Site”)
Nos. 13 & 15 XYZ Street, Hong Kong
- b. Gross Site Area : 300 sm (*See Site Plan at Appendix I*)
- c. Statutory Zoning : “Commercial/ Residential” on Outline Zoning Plan
- no restriction on plot ratio and site coverage but subject to a maximum building height of 100m PD
- d. Key Terms of Government Lease : - Non-offensive trade clause
- Rate and range clause

B) Other Information

- e. Location of the Lot : The Site is located in a mixed commercial and residential district and is within 15 minutes walking distance from MTR Station. There are shops, office and residential buildings in its vicinity.
- f. The Existing Buildings : Two 5-storeys tenement buildings completed in January 1963, served by a common staircase and with a total of 10 units. Each building has 6 undivided shares, 2 shares for the ground floor shop and 1 share for each upper domestic unit. The condition of the buildings is poor.
- g. Others : Owners of 8 units (excluding 2 units at 3/F & 4/F of No. 13) agreed to arrange for a collective sale of their units.

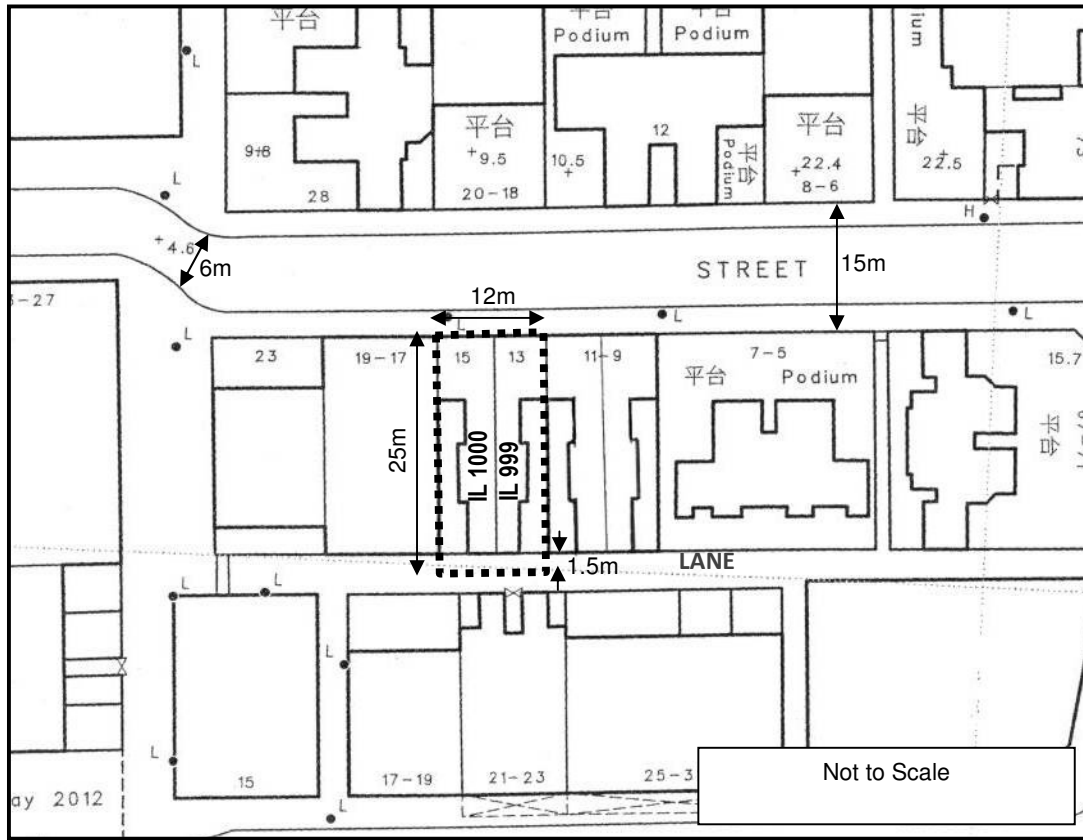
C) The Question

Your Client, a potential purchaser of the Site, sought your advice on

- (i) the redevelopment value of the Site as at today for a composite development; and
- (ii) whether they could apply for the compulsory purchase of the two remaining units in accordance with the Land (Compulsory Sale for Redevelopment) Ordinance, Chapter 545.

Prepare a report outlining your analysis and advice to your Client. Support your advice with an assessment.

Site Plan



First Schedule of Building (Planning) Regulations

Building Height	Domestic Buildings						Non-domestic Buildings					
	% Site Coverage			Plot Ratio			% Site Coverage			Plot Ratio		
	Class A	Class B	Class C	Class A	Class B	Class C	Class A	Class B	Class C	Class A	Class B	Class C
< 15 m	66.6	75	80	3.3	3.75	4	100	100	100	5	5	5
15 m - 18 m	60	67	72	3.6	4	4.3	97.5	97.5	97.5	5.8	5.8	5.8
18 m - 21 m	56	62	67	3.9	4.3	4.7	95	95	95	6.7	6.7	6.7
21 m - 24 m	52	58	63	4.2	4.6	5	92	92	92	7.4	7.4	7.4
24 m - 27 m	49	55	59	4.4	4.9	5.3	89	90	90	8	8.1	8.1
27 m - 30 m	46	52	55	4.6	5.2	5.5	85	87	88	8.5	8.7	8.8
30 m - 36 m	42	47.5	50	5	5.7	6	80	82.5	85	9.5	9.9	10.2
36 m - 43 m	39	44	47	5.4	6.1	6.5	75	77.5	80	10.5	10.8	11.2
43 m - 49 m	37	41	44	5.9	6.5	7	69	72.5	75	11	11.6	12
49 m - 55 m	35	39	42	6.3	7	7.5	64	67.5	70	11.5	12.1	12.6
55 m - 61 m	34	38	41	6.8	7.6	8	60	62.5	65	12.2	12.5	13
> 61 m	33.33	37.5	40	8	9	10	60	62.5	65	15	15	15

** End of Question 7 **

Question 8 - Business Valuation

- (a) Please define the term fair value for financial reporting, and elaborate its relationship with market value.
- (b) What is your understanding about Purchase Price Allocation (“PPA”)?
- (c) What are the procedures to value for Purchase Price Allocation?

** End of Question 8 **

- End of Paper -