

Moreland property group leading property construction essay



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Introduction -Thirupan

The Moreland property group is the leading property developers in Sri Lanka since 1990. The company plans to develop a property on the site which is located No 2, Galle Road, Colombo 3. This report written by the consultants of the company to the chairperson of the Moreland property group Mr. Neil Hingorani and the board of directors for the purpose of trying to find a good project for the proposed site and expect to be given some suggestions on it. Details of the proposed site and brief descriptions of proposed projects are given in this report and further researches and studies are needed to be taken a final decision.

Purpose of the development

Mainly the company's target is developing a good project in order to make a good profit. In this project the proposed land is located in an attractive and valuable location and it will significantly increase the market value of the project. Now the existing hotel is facing losses. So the land can be bought for a lower amount therefore company really need to use this opportunity to do this project to make good business.

Site details

The site is very important to develop a good project in order to make reasonable profit. The value of the site is one of the key factor that affects the value of the project. When the site located in the high value area the demand for the construction project will increase. Apart from that a suitable site is very essential for the convenient construction work. Lots of factors are

deciding the value of the site. Some of them are very important such as location, topography and access facilities.

Description of site

At the moment a four star hotel is exists there. Length and width of the site is respectively 110m and 70m. The total area of the site is approximately 17, 287. 25m². The borders of the site are; North – Galle Face Green, East – Galle road, South – Indian high commission office, West – The beach.

Location

The site was an oldest heritage hotel building located at No. 02, Galle Road, Colombo – 03, Sri Lanka and surrounded by vertical commercial buildings such as banks, supermarkets and hotels (Appendix 01).

3. 3. Site Investigation

A site investigation is necessary for any foundation design. The extent of the investigation will vary depending on the importance of the structure, complexity of the soil and rock conditions. The data available on the behaviour of existing foundations on similar soils. The general topography of the proposed site largely consists of flat or mildly sloping low-lying terrain and the area extent covered under the proposed project is located within a 25 m from the coastline and the elevation varies up to a maximum of 1 m only.

Access

The size of access would depend on how restricted the site is or how constrained the locality of the site. The proposed site can be accessed

through a 5m width dedicated private road, heavy vehicles also can be accessed through this road.

Transport Facility

The site is located in a fare amount of distance for public transports such as, Bus and taxi stand in 50 - 75m, Railway station at 2. 8km, Harbor in 3. 5km, and Airport in 38km.

Services

The proposed site is included following services. Those are; Electricity supply Water Supply Telecommunication Sewage system

Electricity Supply

The premise is already being occupied by a hotel, the site has 3 phrase dedicated electrical line from the department of electricity.

Water Supply

Water will be required for 2 main purposes. Drinking water Water for construction /washing and bathing. If a main supply line is in the vicinity it is advisable to obtain a temporary water connection for drinking water. But this proposed site is already being occupied by a hotel therefore the main water supply connection is available.

Telecommunication system

Telephone connection is already in the proposed site. It is important to exchange data between the field office and the field operation.

Sewage system

The premise is already being occupied by a hotel so the main drainage connection and sewage system are included. Within the site toilets will have to provide. Two levels are generally required; i. e. for officers and labourers. Temporary septic tanks and soakage pits should be provided.

6. 0 Legal issues relating to site purchase

Lots of investigations to be done before purchasing the land to ensure that land has a clear and marketable title. The legal status of the land is one of the first issues that should be addressed before confirming a property. Title deeds
The first step is to see the title deed of the land which in Galle face hotel, No 2 Galle road, Colombo-03, Sri Lanka. Confirm whether the land is in the name of the seller and that the full right to sell the land lies with only him and no other person. It is better to get the original deed examined by a lawyer. Conveyance Deed or Sale Deed
A sale agreement is a document which is the title of a property should convey by the seller to the purchaser. At this time, conveyance is the act of transferring ownership of the property from a seller to the buyer. Tax receipt and bills
The owner of the land liable to pay all the taxes which are due to the government or municipality regulations. Therefore the enquiry must be made government and municipal offices to ascertain whether all taxes have been paid up to date.

Encumbrance Certificate
Before buying any land, it is important to confirm that the land is free from the legal issues. The encumbrance certificate should be obtained from the sub registrar office where the deed has been registered, stating that the said land does not have any legal dues and complaints. Check the encumbrance certificate for the past thirteen years or

could demand verify the 30 years encumbrance certificate. Pledged land Some people may have taken loans from the bank by pledging their land. Ensure that the seller has paid back all the amounts due. The release certificate will be obtained from the bank, which is necessary to release all the debts over the land legally. Measuring the land It is advisable to measure the land before registering the land in the company name. Take the help of a recognised surveyor to ensure that the measurements of the plot and its borders are accurate. And take the survey sketch of the land from the survey department and compare for accuracy. Power Of Attorney Power of Attorney is the power given to an agent by the principal to execute several acts and deeds for and on behalf of the principal. Stamp duty payable depends on the nature of power given. Agreement When all obligations and requirements agreed with both parties then the agreement can be made by them and it is better to give a certain amount of money as the advance payment. Stamp Duty It is a tax, similar to sales tax and income tax collected by the Government, and must be paid in full and on time. Registration Registration is the process of recording a copy of a document, transferring the title in immovable property in the office of the Registrar. It acts as proof that a transaction has taken place.

7. 0 Statutory Obligations (Including planning permission and building regulation)

7. 1 Planning Permission

According to Sri Lankan law the planning permission to be obtained for the construction of new buildings, alternation and enlargement of existing buildings and changes of uses of the building. Colombo Municipal Council as

the planning Authority has to ensure that the development is allowed when it is needed, while ensuring that the character and amenities of the area are not adversely affected by the proposed development. Planning permission includes: Approval of subdivision plans Approval of building plans Approval of condominium plans The purpose of the planning system is to protect the environment as well as public amenities and facilities. The planning control process is administered by local authorities and exists to 'control the development and use of land and buildings for the best interests of the community'.

Submission Of Subdivision Plan For Approval

The original and four (04) copies of the survey plan and where necessary with level sections, prepared by a Licensed Surveyor should be submitted to the Planning Division with the following documents: a. Letter of consent from the owner/owners if the applicant is not the owner. b. Non-vesting certificate and issued within three months made for sub-division. Obtained from the Municipal Treasurer (3) months from the date of application c. Clearance obtained from The Municipal Drainage Division, Maliakanda. d. Payment of the prescribed fee i. e. Rs. 250/- per lot. Once the sub-division Plan is approved Assessment Numbers for the sub-divided lots should be obtained from the Municipal Assessor.

To Apply For Tile Planning Permission

a. Preliminary Planning Clearance for any development can be obtained from the Council or Urban Development Authority if it is necessary. It is advisable to obtain this clearance for high-rise developments before preparation of the plans in order to avoid delays and disappointments. Application for <https://assignbuster.com/moreland-property-group-leading-property-construction-essay/>

preliminary planning clearance is available in the City Planning Division. This applications should be submitted with two (2) copies of sketch plans.

This clearance will be issued in writing with conditions if any and this is valid for only one year. b. The building application form for obtaining a Development Permit is available in this City Planning Division. It is very necessary that the designers are aware of the prevailing regulations and other Planning and Building requirements such as Sub-division of land, street and building lines, arcade lines and other reservations, zoning, fire requirements and buildings standards. c. It is the duty and the responsibility of the designer to go through the Planning and Building Regulations prepared under the Section 8 of the Urban Development Authority Law carefully to give as correctly and clearly as possible all particulars and information that are required.

7. 2 Building Regulation

Even when planning permission is not necessary, most building work is subject to the requirements of the Building Regulations. Building Regulations ensure that new and alterations work are carried out to an agreed standard that protects the health and safety of people in and around the building. Builders and developers are required by law to obtain building control approval, which is an independent check that the Building Regulations have been complied with (UDA). The minimum extent, usage depth, frontage etc. should be according to the Planning and Building Regulations. (Refer appendix 5a & 5B) When Submission of Building Application (refer appendix) following necessary clearances/documents is including Clearance regarding the underground storm water and foul sewer obtained within 02

years Clearance regarding the under ground water lines Street line & Building line certificate Clearance for low lands, canals & drainage reservations Coast Conservation Clearance Civil Aviation Authority Clearance Central Environmental Authority Clearance Condominium Management Clearance Urban Development Authority Clearances. Clearances for other reservations. Clearance for historic and architecturally valuable buildings Clearance for high tension electrical lines Fire Clearance Solid Waste Management Clearance Security Clearance. With that site plan also will submitted.

8. 0 Types Of Finance

The construction project whether large or small, requires finance. Normally two broad categories can be raised. These are Equity Debt Equity refers to the practice of using the the client's (Moreland) own resources to finance the project. Debt funding, the project is financed by borrowing money from a various institutions . In this project bank is involed. In this project is financed from a mixture of sources. The accepted gearing for property development project is around 90: 10 debt to equity. Usually financing is required at two stages. These are During the development phase-This period is highest risk, as revenue will not begin to flow until completion. After completion -Lower risk in this period. The developer has to reimburse the money borrowed for constrction plus accumulated interest.

8. 1 Equity

The sources of equity are From shareholders' fund or share capital Internal sources such as retained profits, funds held in return for taxation.

8. 1. 1 Sources of equity

Opportunity cost: It is the amount of interest forgone by taking capital off deposit and using it to fund a new project. Forward funding: This funding method involves a financial institution. For example insurance company purchase the land and provides the fund for the construction. At the completion of the project it is sold and the developer paid. From the developer's point of view the disadvantage is that the funding institution will have a major influence in the direction of the development. The advantages include the fact that the institution bears both the development and disposal risk. In return, the developer's profit may be lower than normal. Joint venture: A joint venture between two or more financial institutions may be essential for large projects. The advantages include risk sharing and the potential to obtain additional expertise or local knowledge that may be essential for the successful completion of the development. Lease and leaseback: This arrangement involves the developer leasing the site to a bank or other institution for a nominal rent. In this project bank is involved. The bank then arranges for the construction of the project in accordance with developer's instructions. On completion the bank leases the building to the developer at a rate that includes construction and finance costs. This approach also has the potential for tax allowances.

8. 2 Debt

The debt finance is risk transferred to the funder. The amount of interest charged will reflect the perceived risk of the development. The amount of interest charged will reflect the perceived risk of the development. The principal sources of debt finance is bank. Bank is generally risk adverse

institution and as such , tend to lend money on a short -term basis with the project usually required by the bank as security. Options include fixed rate and variable rate, variable rate is the most commonly used method. The developer approaches a bank and the risk will be assessed based on the nature of the proposed project, market condition, etc. Variable rate finance leaves the developer exposed to increase in the base rate that can take into profits or risk the total project validity. Loan are categories into non-recourse , limited recourse and full recourse. These terms refer to the extent to which the developer guarantees the debt.

9. 0 Information relating to Cost

Normally in Sri Lankan practice cost analyses are based on building rate of schedule(BSR). It is published by building department. Institute of Construction Training and Development (ICTAD) is published price book and escalator. The advantage of BSR and price book are published in standard cost analysis format.

Price bills of quantities from previous projects. A useful source of information as the cost information tends to be current. Withthat other forms of cost data , there is a need to adjust for differences in location , time, quality etc.

Cost analysis and cost models produced in house. This is depending on organization. Moreland company has own cost analsis and cost models data. In this took construction cost from in house.

9. 1 Build costs

Build costs are including construction cost, professional fees and

contingency. Construction cost is the total expenses for a structure's original
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development from conception to completion. In this proposed project construction cost took from pass project(in-house material) and included the adjustment also. Construction cost is per sq m = Rs 100, 000. 00. (year 2011)

Adjustment

5% of Time Factor= Rs 5000. 005% of Quality = Rs 5000. 00Present

Construction cost is per sq m = Rs 110, 000. 00Total Construction

Cost(26500 sq m)= Rs2, 915, 000, 000. 00 (Refer Appendix)Professional fees

mean fees paid for work done by a professional such as Engineers, Quantity surveyors, Architecturers etc. In this proposed project professional fee is 12.

5% of total Construction cost. Therefore professional fee is Rs 364, 375, 000.

00 (Refer Appendix)Contiency means a fee that is payable only if the

outcome is successful. This amount is allocate for future expences. In this

proposed project contiency fee is 10% of total construction cost. Therefore

contiency amount is Rs 291, 500, 000. 00 (Refer Appendix)

9. 2 Rents

Rent means usually fixed periodical return made by a tenant or occupant of property to the owner for the possession and use thereof. Particularly an

agreed sum paid at fixed intervals by a tenant to the landlord. In this

proposed project rent is Rs 636, 000, 000. 00 (Annum)(Refer Appendix)

9. 3 yields

The percentage return on an investment. In this company yield is 10%. A

given investment can have a variety of yields because of the many methods

used to measure yield. Yield is usually calculated by dividing the amount

company receive annually in dividends or interest by the amount company spent to buy the investment. It is depend on company investment. In the case of stocks, yield is the dividend you receive per share divided by the stock's price per share. With bonds, it is the interest divided by the price company paid. Current yield, in contrast, is the interest or dividends divided by the current market price. In the case of bonds, the yield on company's investment and the interest rate company's investment pays are sometimes, but by no means always, the same. If the price company pay for a bond is higher or lower than par, the yield will be different from the interest rate.

9. 4 Sale prices

In this project sale prices means land value . Plot of land will cost depends on several factors, notwithstanding its location, size, proximity to transport links and whether it benefits from any type of planning permission. Land value calculate this proposed project is [Gross development cost-(Total development cost+Developers profit)]. In this proposed project land today value or residual value is Rs 1, 041, 796, 111. 61.

10. Residual Valuation

A developer's budget or residual method of valuation is generally used to calculate the amount of money that a Moreland can pay for a plot of land. This is determined by firstly calculating the value of the completed development, the gross development value (GDV) . It can be the total sum from sales or rental income. If rental income , then it will be necessary to discount estimated future incomes. All the costs that need to be expended are then deducted from this figure. The residual figure amount is the amount available for the purchase of land, although in effect the technique can be <https://assignbuster.com/moreland-property-group-leading-property-construction-essay/>

used to determine the value of any unknown. The developer's budget lends itself readily to spreadsheet applications, such as Excel and, once set up can quickly produce figures relating the financial feasibility of a this project.

Moreland is considering the purchase of a Galle face hotel, No: 2 Galle road, Colombo-03 site which has outline planning permission for the construction of a shopping mall to provide 26, 500 m² of gross floor area. When complete it is anticipated that, based on similar developments in the area, it will be let at Rs 30, 000 per square metre and that the completed development would produce a yield of 10%. The project costs are as follows: Construction costs: Rs110, 000/m²Contiency costs: 10% of construction costsProfessional fees: 12. 5% of construction costsDisposal costs: 2% of first year's rentInterest rate: 6% of Total build costDeveloper's profit: 20% of gross development value(GDV)Construction time: 2 years

Office Development

Amount(Rs)

Total Amount(Rs)

Gross Internal Area of Building53005 storey building26500Net Internal Area (80%)21200Rent per sq m30, 000. 00Total Annual Rent636, 000, 000. 00Freehold investment yield @ 10%10

Gross Development Value(capital Cost)

6, 360, 000, 000. 00

It is usual for a project of this type to be planned and built by a developer and then, once completed and fully let, sold to another party for a profit or yield. The proposed project has a gross floor area of 26500 m². Typically, the

ratio of gross to net floor area is in the range of 80%. It is, of course, important that the ratio is as high as possible in order to maximise the rental income and the value of the completed project. Most commercial development is carried out for profit and our company decided 20% of gross development value (GDV) profit is required for this project. Generally, the greater the risk, the higher the profit. The proposed project profit is Rs. 1, 272, 000, 000. 00. Once completed it will be necessary to dispose of a project, either by selling or letting. The costs associated with this are typically legal costs, advertising, incentives, stamp duty, agent's fees. In this project disposal cost is Rs. 127, 200, 000. 00.

Development Costs

Amount(Rs)

Total Amount(Rs)

Construction cost per sq m (pass project and 5% time and 5% quality adjustment) 110, 000. 00
 Construction Costs (total GIA) 2, 915, 000, 000.

Professional Fees @ 12. 5% of Construction Costs 364, 375, 000.

Contingency @ say 10% of Construction Costs 291, 500, 000. 00
 Total Build

Costs (TBC) 3, 570, 875, 000. 00
 Cost of finance @ say 6% of TBC for 9

months $357875000 * (1. 06)^0. 75 - 357875000 = 159, 513, 355. 00$
 Cost of letting

@ 10% of annual income 63, 600, 000. 00
 Cost of disposal @ 2% of GDV 127,

200, 000. 00

Total Development Costs**3, 921, 188, 355. 00****Developers profit @ say 20% of GDV****1, 272, 000, 000. 00****Total costs****5, 193, 188, 355. 00**

Finally, after the costs have been calculated and deducted from the GDV the residual figure is the sum available to purchase the land. Of course, it may be necessary to finance the land purchase, and certainly there will be legal costs involved. Value of site in 2years time 1, 166, 811, 645. 00 Present value of Rs1 in 2years time @6% $1 \times (1 + 0.06)^{-2} = 1.120.89$ Site value today including acquisition costs (land value)

1, 041, 796, 111. 61

In this proposed project land today value or residual value is Rs 1, 041, 796, 111. 61.

Conclusion Thirupan

In this report details of the proposed site are described and suitable three projects are briefly described. Those three projects are really good for a company to make a profit and suitable for this site. But to make a final decision to select a most suitable and feasible project some more studies should be carried out on this site regarding the site condition and surroundings. Meanwhile lots of approvals must be getting from local authorities so planning regulations of the UDA and other regulations must be studied to select a suitable project (For planning regulations, and laws <https://assignbuster.com/moreland-property-group-leading-property-construction-essay/>)

Appendix 04). Some researches should carry out on site such as soil testing. Feasibility study on each proposed project have to be done to find which one is most profitable. Lots of risks are related to construction projects those risks have to be identified in each project and need to find ways to avoid it and then the low risky project will be chosen. However some market survey needs to do to find the market value of those three projects. Need to consult with a good architect or a consultant regarding the project to get some more suggestions on it. This is a seaside location so needed to consult with environmental and costal reservation authorities. After all these studies, researches and surveys according to those results the most suitable project can be selected.

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APPENDICES

Appendix 1

Map

Appendix 2

Map

Appendix 3

Map

Appendix 4-Option to Purchase Agreement

This Agreement is made on the day of 2013 Between (the " Buyer"): and (the " Seller"). WHEREAS: The Seller now owns (the " Property") NOW IT IS HEREBY AGREED as follows: In consideration of the sum of Rs, (the " Option Payment") receipt of which is hereby acknowledged by the Seller upon <https://assignbuster.com/moreland-property-group-leading-property-construction-essay/>

execution of this agreement, the Seller grants to the Buyer the exclusive option to buy the Property for the following price and on the following terms (the " Option"): Purchase price RsThe Option Payment will be credited against the purchase price of the Property if the Option is exercised by the Buyer. The Option Period will be for months from the date of this Agreement (" the Option Period"). The Option shall be exercised by the service of written Notice by the Buyer on the Seller at any time within the Option Period. Upon the service of the written Notice from the Buyer to the Seller exercising the Option this Agreement shall constitute a Contract for the Sale and Purchase of the Property with the terms and conditions hereunder provided. The standard Conditions of sale (Forth Edition) shall apply and are incorporated herein save that this Option Agreement is assignable. Vacant possession of the Property will be given on completion. The Seller shall transfer with Full Title Guarantee. The Seller confirms that they are the registered owner of the Property and is able to sell the Property free from encumbrances. The Seller agrees not to apply for any mortgages or secured loans on the Property at any time during the Option Period. If the Option is not exercised within the time herein provided the Option herein granted shall be null and void and the Seller will retain the Option Payment. No modification of this agreement will be effective unless it is in writing and is signed by both the Buyer and Seller. This agreement binds and benefits both the Buyer and Seller and any successors. This document, including any attachments, is the entire agreement between the Buyer and Seller and shall be governed by English Law.

Signed by or on behalf of the Seller

Signed by or on behalf of the Buyer

in the presence of (witness)

in the presence of (witness)Name

Name

Address

Address

Occupation

Occupation
