



**NAMIBIA UNIVERSITY  
OF SCIENCE AND TECHNOLOGY**

**Faculty of Natural Resources and Spatial Sciences**

Department of Land and Property Sciences

<b>QUALIFICATION(S):</b> BACHELOR OF PROPERTY STUDIES DIPLOMA IN PROPERTY STUDIES	
<b>QUALIFICATION(S) CODE:</b> 08BPRS 06DPRS	<b>NQF LEVEL:</b> 6
<b>COURSE CODE:</b> PMV611S	<b>COURSE NAME:</b> PRINCIPLES AND METHODS OF VALUATION
<b>EXAMS SESSION:</b> JULY 2019	<b>PAPER:</b> THEORY
<b>DURATION:</b> 3 HOURS	<b>MARKS:</b> 100

<b>SECOND OPPORTUNITY/SUPPLEMENTARY EXAMINATION QUESTION PAPER</b>	
<b>EXAMINER</b>	MR. SAM M. MWANDO
<b>MODERATOR:</b>	MR. AMIN ISSA

<p style="text-align: center;"><b>INSTRUCTIONS</b></p> <ol style="list-style-type: none"><li>1. Read the entire question paper before answering the Questions.</li><li>2. Please write clearly and legibly!</li><li>3. The question paper contains a total of <b>5 questions</b>.</li><li>4. You must answer <b><u>ALL QUESTIONS</u></b> .</li><li>5. Make sure your Student Number is on the EXAMINATION BOOK(S).</li></ol>
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**PERMISSIBLE MATERIALS**

1. Non-programmable Scientific Calculator

**THIS QUESTION PAPER CONSISTS OF 6 PAGES** (Including this front page)

**Question 1**

For each of the following statements indicate whether it is true or false. Each correct answer carries 1 (one) mark.

- a) An appropriate basis of valuation is adopted for each purpose of valuation.
- b) The profits method of valuation is applicable to properties such as office buildings for rent and residential houses in an active market.
- c) The Residual Method of Valuation is mostly used to value developed land or land having new or otherwise suitable buildings where the site is not ripe for redevelopment.
- d) When using the cost method of valuation, no account is taken of depreciation although the estimated value of land is added to get a final value.
- e) In the profits Method of Valuation, the Gross profit is obtained after deducting working expenses (except rent).
- f) The sequence in which adjustments are applied to the comparables is determined by the market data and the valuer's analysis of the data.
- g) The Cost Method of valuation is mostly used to value properties without a prior similar transactions.
- h) The suitability of the investment method of valuation depends upon a variety of factors, including the use of realistic yield, an accurate allowance for outgoings and, in the case of leasehold interests, and appropriate tax rate.

- i) Rent per square metres of net lettable area per annum is one of the primary unit of comparison in valuing office buildings.
- j) The Amount of N\$1 Per Annum refers to the amount to which annual deposits of N\$1 each will grow in a given number of years and at a stated rate of interest.
- k) When the market is weak and few market transactions are available, the applicability of the sales comparison approach may not be limited.
- l) When undertaking valuation assignments, whether to estimate market value or some other defined non-market value, the valuer is not required to apply one or more valuation methods or approaches.
- m) The cost approach is based upon the premise that the informed purchaser will not pay more for a property than the cost of constructing an equally desirable substitute less appreciable depreciation.
- n) The suitability of the profits method of valuation depends upon a variety of factors, including the use of gross earnings, working expenses, tenant's remuneration and interest on capital.
- o) If a building layout or style fails to meet market tastes or standards due to changes in design and technological advances, the building suffers from functional obsolescence.
- p) The comparative analysis of properties and transactions focuses on similarities and differences that affect value but there are variations found in these similarities and differences.
- q) Functional obsolescence is caused by the presence of currently desirable layout, design or other features, or presence of currently desirable features.

- r) A private home may drop in value when an industrial plant is built nearby. This is an example of incurable functional obsolescence.
- s) The cost approach to value is more reliable when the improvement is new, has no accrued depreciation and is the highest and best use.
- t) In doing a reduced floor area analysis consideration is made of the relative values between the ancillary space and the main residential space.

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**Question 2**

- a) What are the underlying premises of each of the following methods of valuation?
- i) Comparative method (2)
  - ii) Cost Method (2)
- b) Define the following types of depreciation and give a minimum of three (3) examples for each of them.
- i) Physical deterioration (2)
  - ii) Functional obsolescence (2)
  - iii) Economic obsolescence (2)
- c) Assuming similar terms and conditions, analyse and calculate the rental value of a residential property in Khomasdal with a net floor area of 120m<sup>2</sup> currently vacant and to let. The following are comparable properties: (5)

Comparables	Extent in m <sup>2</sup>	Location/locality	Date of Sale	Rentals (N\$)	Value (N\$)
Property A	150	adjacent	recently	48 000	
Property B	100	nearby	January 2019	36 000	
Property C	150	nearby	November 2018		450 000

d) The following is data on a property in Windhoek West:

Sale price	N\$ 400 000
Value of Land	N\$ 100 000
Cost of Improvements new	N\$ 450 000

- i) Calculate the Lump-sum dollar depreciation as well as the Lump-sum percentage depreciation of the property. (3)
- ii) Calculate the average annual percentage depreciation if the property is 8 years old. (1)
- iii) Which method of calculating depreciation is this? (1)

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### Question 3

- a) Differentiate between yield and return in terms of investment valuation. (4)
- b) Outline any two principles related to the Investment Method of Valuation. (4)
- c) Outline any four (4) potential sources of data that you would look for when using the Investment method of valuation. (4)
- d) Outline the four (4) factors that are necessary when undertaking an income and expense analysis. (8)

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### Question 4

- a) Explain the circumstances where a valuer would use the Residual Method of valuation? (4)
- b) Outline the three main purposes for which a Residual valuation may be undertaken. (3)
- c) Outline any three (3) variables to consider in determining the Gross Development Value. (3)

- d) Explain the following terms as they apply to Residual Method of Valuation:
- i) Developer's profit and risk (6)
  - ii) Professional fees and costs (2)
  - iii) Advertising and marketing (2)

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### Question 5

- a) Explain the following as used in the profits method of Valuation:
- i) The profits principle (2)
  - ii) Legal Monopoly (1)
  - iii) Factual monopoly (1)
  - iv) Goodwill (1)
- b) Why is the profits method of valuation a preferred method when valuing Petrol station (5)
- c) Erindi Petrol Station comprises a garage and self-service petrol station situated on a busy road in Windhoek. The development comprises a forecourt, a 550m<sup>2</sup> convenient shop, a 250m<sup>2</sup> storeroom and a 850m<sup>2</sup> workshop. Petrol sales are at average of 550,000 litres per annum at N\$7.6 per litre. Current net rentals for similar shops are N\$100/m<sup>2</sup> per month, workshops and store rentals are N\$25/m<sup>2</sup> and N\$22/m<sup>2</sup> per month respectively. Outgoings are set at N\$ 250,000 per annum. According to your research in the market, the market yields for this kind of investment is approximately 11%. However, on close analysis, you discover that with a service station on site the yield would be 2 percentage points better than the market yield. Assuming a freehold title, calculate the value of the property.

(10)

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**End of Examination**