



PANIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY

FACULTY OF ENGINEERING AND THE BUILT ENVIRONMENT

DEPARTMENT OF LAND AND SPATIAL SCIENCES

QUALIFICATION(S): BACHELOR OF PROPERTY STUDIES DIPLOMA IN PROPERTY STUDIES	
QUALIFICATION(S) CODE: 08BPRS 06DPRS	NQF LEVEL: 6
COURSE CODE: PDM611S	COURSE NAME: PROPERTY DEVELOPMENT AND MARKETING
EXAMS SESSION: JUNE 2023	PAPER: THEORY
DURATION: 3 HOURS	MARKS: 100

FIRST OPPORTUNITY EXAMINATION QUESTION PAPER	
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MODERATOR:	UAURIKA KAHIREKE

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

PERMISSIBLE MATERIALS

1. Non-programmable Scientific Calculator

THIS QUESTION PAPER CONSISTS OF 7 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 mark. (25)

- a) Accounting rate of Return (ARR) also known as Return on Invested Capital (ROIC) of a development project in terms of the magnitude of profit an investor generates for every dollar invested in project before accounting for taxes. (1)
- b) Investors need market information at every stage in their real estate investment decision making. They must estimate the most likely cash flow from each investment alternative. (1)
- c) Real estate investment decision is essentially a matter of interpreting information about the real estate market in general and the subject parcel in particular. (1)
- d) Building control implemented and enforced by local authorities ensures that building works complies with the building regulation and a set of standards intended to protect peoples safety, health and welfare in and around the built environment. (1)
- e) The Bill of Quantities provides projects specific measured quantities of the items of work identified by the drawings and specification of the Planning consultant. (1)
- f) The Loan to Value ratio is a risk assessment instrument used by financial institution to examine the affordability of potential buyers of real estate before approving mortgage application. It is used to assess the strength of the supply side of the real estate market during market analysis stage of property development. (1)
- g) Agreement or Letter of Intent with Anchor Tenants are critical for a financial institution to finance construction of commercial properties such as shopping mall. (1)
- h) Market analysis for proposed real estate development considers market area, economic trends, supply and demand indicators, market conditions, and feasibility factors. No due cognizance must be given to Institutional factors such as culture, customs and traditions, habitual ways of thinking and of doing things. (1)

- i) With an exclusive right to sell listing, the seller employs only one agent and must pay that agent a commission regardless of whether it is the agent or the seller who finds a buyer provided the buyer is found within the listing period. (1)
- j) Under an exclusive agency listing, the agent is given the exclusive right to represent the seller, but the seller can avoid paying the agent a commission by selling the property to someone not procured by the agent. (1)
- k) From the Real Estate investor's perspective, the client brief and spectacular architectural design of the proposed development is central to the success of the development project and its important cannot be underestimated. (1)
- l) Design and costing stages typically involve contribution from all the professional team members. It is therefore the role of the Building Contractor to ensure there is fluent co-ordination between each stage of the development when producing the design and costing. (1)
- m) By the Accounting Rate of Return (ARR) and the Discounted Cash Flow (DCF) techniques of investment appraisal, a set of decision rules which can differentiate acceptable from unacceptable alternatives is required. (1)
- n) The highest and best use of a site is usually the most costly building or the building producing the highest net operating income. (1)
- o) In defining a market area for a housing project, a major link, for example, is place of employment as determined by the time, expense and difficulty of the journey to work. (1)
- p) Failure to undertake market research deprives an investor the opportunity to know he is offering an inferior product and service. Even worse, the investor may be trying to ask a premium for an already outdated product. (1)
- q) Economic use of land resources is analysed from the framework of physically possible, institutionally viable and economically acceptable. (1)

- r) A real estate market research problem can be quite general such as determining the community demand for housing which does not address any specific property type, location but focussing on the strength of demand for a particular land parcel. (1)
- s) Rental rates or levels provide a good indicator of the supply and demand situation for income producing properties. (1)
- t) A positive Net Present Value (NPV) indicates that the projected earnings generated by a project or investment - in future dollars terms - exceeds the anticipated costs, also in future dollars. (1)
- u) By Discounted cash Flow technique for evaluating development projects, it is assumed that an investment with a positive NPV will be profitable, and an investment with a negative NPV will result in a net loss. (1)
- v) The decision criteria which form the basis for selection of mutually exclusive development projects dictates that only investments with positive NPV values should be considered. (1)
- w) High vacancy rates indicate an oversupply of real estate which ultimately pressures rental rates downward because there is so much competition among landlords for tenants. (1)
- x) When low occupancy rates occur, it is a landlord's market. The low rates create higher demand for existing units which, in turn, keeps market prices higher. (1)
- y) Increase in number of properties listing for sale reflects a situation in which the cost of renting a home is low as compared to the cost of buying a home. (1)

[25]

Question 2

- a) A brownfield known as Xolox has been identified to be a suitable site for the construction of Flexibies Housing Estate, a plush apartment complex in the outskirt of Omafo metropolis. is to be developed with the following projections revealed through a real estate market survey.

Land acquisition		N\$ 123 500
Quantity Surveyor's estimate of items of work and specifications		N\$ 280 000
Contractor's Profit		N\$ 58 400

Project evaluation conducted by Abisai Incorporated CC revealed the following.

- Flexibies will be sold 8 years later for N\$ 950 000.
- Income for the first 5 years will be N\$122 500 per annum and for the following 4 years, N\$95 000 per annum.
- Income taxes estimated at 5% per annum were not taken care of in projecting the income stream for the last 4 years of operating the facility.

You are required to determine the Accounting Rate of Return for Flexibies Housing Estate. (6)

- b) Meme Aluguntu is confronted with a critical real estate investment decision to make regarding two mutually exclusive investments. In fact, she intends to purchase an Apartment building or buy a Real Estate Investment Trust (REIT) that will require an outlay of N\$54 500 and N\$80 000 respectively. A detailed market analysis recently carried out in the comparable market revealed the following market information regarding income flow;

Period	Real Estate Investment Trust (REIT)	Apartment Building
Year 1	N\$ 13 000	N\$ 15 000
Year 2	N\$ 25 000	N\$ 14 500
Year 3	N\$ 18 500	N\$ 45 000
Year 4	N\$ 20 500	N\$ 46 000

In the process of carrying out the investment appraisal you are informed that the projected income for year three of the respective investments were inclusive of insurance premium amounting to N\$ 1 350.

Advise on which of these mutually exclusive investments should be undertaken when the investors target rate is 12%. (15)

[21]

Question 3

- a) Bossville site could reasonably be expected to be used for any of these types of property development: Ongapi Court, town house units or a Kantope retail facility. Below is detail construction and market information on the respective logical uses:

Types of Use	Area for Construction (sq. m)	Rental (N\$ sq. m)	Vacancy rate (%)	Credit losses (N\$)
Ongapi Court	3 500	150	3	12 000
Kantope retail facility	12 850	194	3	12 500

Operating expenses to be incurred are estimated to be 15% and 18% of the respective effective gross income for Ongapi Court and Kantope retail facility.

Assume a market return of 12 percent on all two buildings.

Sales of comparable properties have just been concluded for all the two types of uses in N\$ as follows:

	Ongapi Court N\$	Kantope Retail Facility N\$
Sales Price	3 500 000	7 560 000
Buyer's expected Net operating Income during the first year of ownership	650 000	860 000

It is anticipated that Concession stands in the Kantope Retail developments will generate annual revenue of N\$2 400.

It has been estimated that Professional fees, cost of labour and material, cost of finance and contractors fees will respectively amount to N\$899 and N\$689 per square metre for Ongapi Court and Kantope retail facility.

With the above market information, you are required to conduct an appraisal to determine the economic use that maximizes the value of Bossville site. Assume lettable area is equal to area of construction (18)

- b) In your own words state the meaning of any three (3) of the following terms as used in the development and marketing of properties.

(6)

- i) Potential Gross Income (PGI)

- ii) Effective Gross Income (EGI)
- iii) Vacancy rate
- iv) Relationship between vacancy and occupancy rates

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Question 4

- a) Account for any four (4) legal requirements under the Estate Agent Act to be complied with by Principal Estate Agents (i.e. companies, close corporations, partnerships and sole proprietors) when acting as estate agents? (12)
- b) In dealing with prospective purchasers or lessees, Estate agents have certain legal and ethical obligations to serve their interest in a professional manner. Briefly explain any four (4) aspects that constitute rendering of a professional service to a prospective buyer. (12)

[24]

Question 5

- a) Briefly account for the following under site acquisition as a component of property development process;
 - i) Legal investigation (2)
 - ii) Physical inspection and examination (2)
- b) Briefly explain the role of the Valuation Surveyor as an actor/consultant in a property development process. (2)

[6]

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