



**NAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY**

Faculty of Natural Resources and Spatial Sciences

Department of Land and Property Sciences

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

FIRST OPPORTUNITY EXAMINATION QUESTION PAPER	
EXAMINER	MR. SAM M. MWANDO
MODERATOR:	MR. AMIN ISSA

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 8 PAGES (Including this front page)

Question 1

- a) For each of the following statements indicate whether it is true or false. Each correct answer carries 1 (one) mark.
- i) The best comparable property is the one that is the least like the subject property.
 - ii) The term that refers to the loss of value from all causes which are outside the property itself is known as functional obsolescence.
 - iii) Reproduction cost is the cost of constructing, using current construction methods and materials, a substitute structure equal to the existing structure in quality and utility.
 - iv) While assessing the depreciation of motor vehicles, the valuer should not consider if the car is lady driven or male driven.
 - v) The Discounted Cash Flow (DCF) methodology relies on the construction of an explicit cash flow reflecting all real receipts and payments associated with property ownership and reflecting the valuer's understanding of market perceptions of growth and risk.
 - vi) Replacing a broken window pane is an example of curable obsolescence.
 - vii) The difference between a building's economic life and its remaining economic life is the actual age.
 - viii) The age of a property based on the amount of wear and tear it has sustained is referred to as the estimated economic age.
 - ix) The Internal Rate of Return (IRR) is the actual return provided by an investment which equates the present value of the future cash flow with the initial outlay.
 - x) 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.

b) Multiple choice questions. Each answer carries 1 (one) mark.

- i) Which formula is applicable in establishing value of a property by cost approach?
- a) *Cost of site + cost of building – obsolescence – depreciation = value of the property*
 - b) Cost of site + cost of building + obsolescence – depreciation = value of the property
 - c) Cost of materials + cost of building – expenses = value of the property
 - d) Cost of money + cost of building – obsolescence – depreciation = value of the property.
- ii) Which method is best suited for the valuation of dilapidated buildings, historical buildings and new buildings?
- a) Cost approach
 - b) Accounts method
 - c) Residual method
 - d) Hospitality comparable method
- iii) A property valuer is undertaking the valuation of Catholic Hospital in the Windhoek Central Business District (CBD) in June 2019. Which property type should he/she consider in establishing the rate of land per square metre?
- a) The land rates for institutional properties only
 - b) The rate being applied on commercial/business properties in the CBD
 - c) The rate being applied on hospitals in Windhoek West and Eros
 - d) All of the above.
- iv) For a good valuation report to be compiled, it is vital for the valuer to note the following sources of information except for.
- a) Estate agents
 - b) Deeds registry
 - c) Close friends and relatives
 - d) Municipality

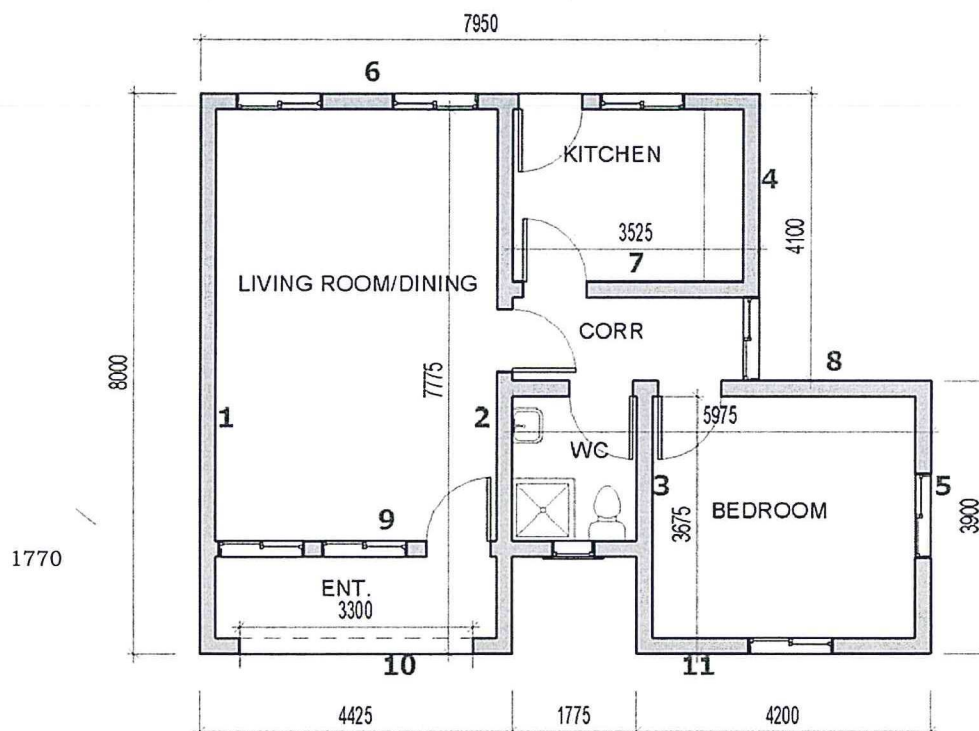
- v) The total cost to build a house might be N\$3.1m, but a valuer might subsequently value the house at N\$4.2m based on comparable market data and the characteristics of the house. The price subsequently achieved in a sale might then be N\$5.275m although one of the unsuccessful bidders thought the house was worth only N\$5.1m. There are some building materials on site that will be used to extend the same house that are worth N\$500,000. Which amount are we, valuers, concerned with?
- a) N\$4.5m
 - b) N\$5.775m
 - c) N\$5.1m
 - d) N\$5.275m
- vi) If a comparable property has a larger erf than the subject property, what must be done to account for this difference?
- a) The sale price of the comparable must be adjusted upward
 - b) The sale price of the comparable must be adjusted downward
 - c) The market value of the subject must be adjusted upward
 - d) The market value of the subject must be adjusted downward.
- vii) Which of the following does not assist in determining the value of an agricultural property?
- a) Location
 - b) Size of the manager's house
 - c) Availability of water sources
 - d) Topography
- viii) Which of the following is not one of the purposes of undertaking a valuation?
- a) Taxation
 - b) Financial reporting
 - c) Insurance
 - d) Tax evasion

- ix) The appropriate time adjustment to make for a comparable property that sold three years ago for N\$800 000 and has increased in value at 4% annual compound rate is what amount?
- Less than N\$96 000
 - N\$96 000
 - Less than N\$99 890
 - N\$99 890
- x) Which of the following is an example of a special use property?
- Double storey house
 - Rocky Crest police station
 - Office building
 - Retail shop

[20]

Question 2

Consider the floor plan for a house below. The dimension are represented in millimetres, for instance 7950mm is equivalent to 7.950 metres.



- a) Calculate the gross external area (in metres) of the house plan above. (5)
- b) Using your answer (gross external area) from question 13, above, and considering that the erf size of this property is 350 square metres in size, an outbuilding measuring 40 square metres, detached garage measuring 35 square metres. DETERMINE THE VALUE OF THE PROPERTY. You are also aware of the following information: similar erven in this area are selling for N\$ 1,400 per square metres while comparable buildings in the neighbourhood have been sold with the analysed rate of N\$ 7,500. Outbuilding commands a rate of 35% of the main rate and the garage accounts for 25% of the main rate. (15)

[20]

Question 3

- a) Discuss the cost approach to property valuations and briefly explain when it is applicable. (5)
- b) The reduction in the usefulness or the desirability of a property could be caused by any number of things, such as: an obsolete design, lack of function, economic conditions and other negative influences is called obsolescence. In real estate, there are two main types of obsolescence namely; functional and economic obsolescence. Identify which is functional or economic obsolescence from the list below. (5)
- i) Faulty building design
 - ii) Closure of major mining company in a small town
 - iii) Outdated bathroom units
 - iv) Seven lecture rooms with one toilet
 - v) Strong smell from a nearby abattoir in a residential neighbourhood.
- c) Differentiate between Actual Age and Total Economic Life in relation to the cost method of valuation. (5)

- d) The Christuskirche of Windhoek was built for a total cost of N\$ 18,500,000 on a site measuring approximately 3,672m² in 1907. The site was acquired at a rate of N\$450/m². The cost of the mobile church piano was procured at a staggering N\$ 3,200,000. Depreciation to date stands at N\$ 2,500,000. What is the value of the church based on the cost approach? (5)

[20]

Question 4

- a) Explain the two principles relating to the investment method of valuation. (3)
- b) Oscar decides to save for 10 years so as to use the savings to buy himself a dream home. Supposing he saves N\$ 30 000 per annum at the end of each year in a bank that pays interest at 12% per annum, determine whether or not he would be able to purchase the dream home if such homes sell for around N\$ 1 000 000. (3)
- c) An investment valuation is calculated using the yield from the property. A freehold property on the market has an asking price of N\$ 200,000 and a rental income of N\$ 600 per month. Calculate the yield. (3)

- d) The operating statement of a prime apartment block (freehold) is as follows:

Effective Gross Income	N\$ 420 000
Fixed Operating Expenses	N\$ 40 300
Variable Operating Expenses	N\$ 65 500
Replacement Allowance	N\$ 25 200

Using the information provided above, calculate the following:

- i) Total Operating Expenses (2)
 - ii) Operating Expense Ratio (2)
 - iii) Net Operating Income (2)
 - iv) Net Operating Income Ratio (2)
 - v) Value of the property given a yield for similar type of properties being 8% (3)
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Question 5

- b) List the main variables which form the following main components of the Residual

Method of Valuation:

- i) Gross development value (3)
- ii) Development costs (7)
- iii) Fees and expenses on development (3)

- c) Kuaima CC is looking for land in Cimbebasia that is ripe for development. They intend to build 25 residential houses (units) each of which will be sold for N\$650 000. The cost of construction per unit is estimated at N\$ 200 000. The total cost of roads, leveling, landscaping etc. is estimated at N\$1 800 000. Fees for professionals involved in the whole development are estimated at N\$ 1 600 000. Cost of finance is estimated at 10% and Developer's Profit is 20%.

Determine the Residual Value of the land. (7)

[20]

End of Examination