



**NAMIBIA 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: 08BOPS 06DIPS	NQF LEVEL: 6
COURSE CODE: PMV611S	COURSE NAME: PRINCIPLES AND METHODS OF VALUATION
EXAMS SESSION: JULY 2024	PAPER: THEORY
DURATION: 3 HOURS	MARKS: 100

SECOND OPPORTUNITY/SUPPLEMENTARY EXAMINATION QUESTION PAPER	
EXAMINER(S)	AMIN ISSA
MODERATOR:	SAMUEL ATO K HAYFORD

<p style="text-align: center;">INSTRUCTIONS</p> <ol style="list-style-type: none">1. Read the entire question paper before answering the Questions.2. Please write clearly and legibly!3. Please START EACH QUESTION ON A FRESH PAGE.4. The question paper contains a total of 4 questions.5. You must answer <u>ALL QUESTIONS.</u>6. Make sure your Student Number is on the EXAMINATION BOOK(S).

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. (24)

- a) The Residual Method is used to find the value of special purpose properties and the land on which they are built.
- b) The main challenge in the residual method is in estimating the amounts of the many variables that go into the valuation.
- c) The residual method is used for the purpose of finding the residual value of land only and if the land is bought then it is also used to find the value of the developments on the land.
- d) The expected profit in the residual method is calculated from the Cost of Development (CoD).
- e) If the land is already owned by the developer, the profit margin and cost of development can then be easily calculated.
- f) Gross development value is the value of the development intended by the developer and is realised by either sale of the developed properties or the renting out of rooms in an estate or even income generated by the hotel.
- g) The contingencies that are part of the cost of development include, amongst others, industrial action by the construction workers, floods, sudden increase in construction materials.
- h) In the Profits method of valuation the value of the property will be related to the profits which can be made from their use in as far as the value is derived from the income generated by the business.
- i) Both rental and capital values tend to be directly influenced by the potential for profit and in these circumstances a valuation having regard to the profits achieved is more likely to produce a realistic valuation than any application of comparison methods.

- j) A prospective purchaser may hold the view that current profits could be improved substantially by better management, improved financial controls, the incorporation of other sales lines or improvements to the premises. This is called business acumen.
- k) Pump prices and income margins available to both dealer and oil company are prescribed and also the availability of sites for the construction of petrol stations are restricted and these influence the way valuations are carried out.
- l) When the market is weak and few market transactions are available, the applicability of the sales comparison approach may not be limited.
- m) When undertaking valuation assignments, whether to estimate market value or some other defined non-market value, the valuer is sometimes required to apply one or more valuation methods or approaches.
- n) 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.
- o) 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, an appropriate tax rate.
- p) If all sales are comparable to the subject, averaging is done if sales are similar in time or we select the most recent sale and the one most comparable to the subject to place the most weight on.
- q) 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.
- r) Functional obsolescence is caused by the presence of currently desirable layout, design or other features, or presence of currently desirable features.
- s) The basis of valuation for sale/purchase purposes is the Replacement cost/value while the basis of valuation for mortgage purpose is the full insurable value.

- t) The cost approach is based upon the premise that the informed purchaser will pay more for a property than the cost of constructing an equally desirable substitute less appreciable depreciation.
- u) Under the Principle of Substitution of the Comparison method of Valuation, a buyer is willing to pay no more for a property than the cost of acquiring a similar substitute property.
- v) In the Income approach, the Capitalization Rate reflects the market's expected return on investment for the property type and risk level.
- w) The Residual Method is used to find the value of special purpose properties and the land on which they are built.
- x) Both rental and capital values tend to be directly influenced by the potential for profit and in these circumstances a valuation having regard to the profits achieved is more likely to produce a realistic valuation than any application of comparison methods.

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Question 2

- a) Explain the two (2) principles relating to the investment method of valuation. (5)
 - i) Anticipation and change
 - ii) Supply and Demand
- b) Explain the three (3) main purposes for undertaking a residual valuation. (6)
- c) Outline the eight (8) potential sources of data that you would look for when using the comparative method of valuation. (4)
- d) Under what circumstances would a valuer use the Cost Method of valuation? (4)
- e) Enumerate the steps involved in the The Discounted Cash Flow Technique (3)
- f) Explain the use of the Profits method of valuation. (4)

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Question 3

- a) Use the information provided to show how the sales comparison approach accounts for differences in size between comparable properties.
- Subject property: 200 square metres (sq mt)
 - Comparable 1: 150 sq mt, sold for N\$600,000. (2)
- b) Briefly explain, using a worked example, how depreciation affects the valuation of a property under the cost approach. (4)
- c) If a comparable property sold for N\$320,000 but had an additional bedroom compared to the subject property, an adjustment might be made to account for this difference. Assuming the adjustment is N\$10,000, calculate the adjusted value of the subject property? (2)
- d) A warehouse needs to be valued. The estimated cost to replace the building with current materials and labour is N\$800,000. However, the building is 15 years old, and the typical depreciation rate for warehouses in the area is 3% per year. (4)
- e) An apartment building generates a Net Operating Income (NOI) of N\$120,000 per year. The prevailing capitalisation rate for similar properties in the area is 7%. Calculate the value of the building. (2)
- f) The gross rental income (GRI) for Polyheights is N\$2,000,000 and operating expenses (OE) are N\$200,000; calculate the Net operating income (NOI) and using a capitalisation rate of 8%, calculate the estimated value of Polyheights. (4)
- g) Use the following information to value the land using the Residual method. Subject property is a vacant lot zoned for residential development.
- Projected sales revenue or Gross Development Value (GDV): N\$2,500,000
- Construction costs: N\$1,500,000
- Expected profit margin: 20% (4)

- h) Calculate Reduced Floor Area for each comparable. (4)

Property	Living Area (sq mt)	Garage Area (sq mt)	RF (Garage)	Reduced Garage Area	Total Reduced Area
Comp. A	180	-	-	-	? (1)
Comp. B	120	40	0.25	? (1)	? (1)
Comp. C	210	60	0.25	15	? (1)

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Question 4

- a) A shop with an area of 126 square metres is currently let at N\$ 5,000 per annum. Analyse the transaction to value an adjacent shop (Freehold) which has an area of 144 square metres. Yields for shops are presently at 8%. (9)
- b) Using the variable yield of the Term and Reversion method, estimate the value of a freehold interest in a shop premises in a secondary location let at a net rent of N\$80,000 per annum on a lease having 4 years remaining. The current market rental is estimated to be N\$150,000. The yields for the term and reversion are 7% and 8% respectively. (6)
- c) A developer in Luderitz, using his own funds, intends to build a total of 33 flats for sale on a two hectare Erf. 16 of the flats are one-bedroom flats with a sale price of N\$175,000 each while 17 two bedroom flats would sell for N\$235,000 each. The floor area will be 60m² for the smaller flats and 80m² for the larger units while construction cost per square metre is N\$1,000. He estimates that he will need N\$50,000 for site clearance and preparation, and 13% for professional fees (architects, Quantity surveyors and other professionals). Sale Agents fees are at 3% and Developers profit at 15%. Advise him on the value of the erf. (10)

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