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: PDM611S	**COURSE NAME:** PROPERTY DEVELOPMENT AND MARKETING
EXAMS SESSION: JUNE 2024	**PAPER:** THEORY
DURATION: 3 HOURS	**MARKS:** 100

FIRST OPPORTUNITY EXAMINATION QUESTION PAPER	
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INSTRUCTIONS

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 **5 questions.**
5. You must answer **ALL QUESTIONS.**
6. 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) All the stakeholders in property development are for profit maximisation and/or capital growth oriented, except the government whose participation in property development business is motivated by its financial obligation to its shareholders.

b) Accounting Rate of Return (ARR) also known as Return on Invested Capital (ROIC) of a development project determines the magnitude of profit an investor generates for every dollar invested in project before accounting for operating expenses and taxes.

c) Building control implemented and enforced by local authorities ensures that building works comply with the building regulation and a set of standards intended to protect people's safety, health and welfare in and around the built environment.

d) The valuation surveyor is responsible for continuously observing and monitoring the relevant real estate market, advising to ensure adjustment in design specifications, where necessary, is carried out for that completed project to remain aligned to meeting market needs.

e) Realistically, market analysis carried out to assess the viability of a development project must be conducted prior to identifying a suitable specific site for the project development.

f) The Bill of Quantities provides projects specific measured quantities of the items of work identified by the drawings and specification of the Planning consultant.

g) In assessing the viability of a development project using the residual method, a project can simply be concluded as successful if the developer can realise the target percentage of profit without due regard to the residual value of the site.

h) Smooth completion (marketing) of the project requires that the developer engages the services of a Real Estate Agent to secure sale of the property e.g. through pre-lets or pre-sales.

i) 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 demand side of the real estate market during market analysis stage of property development.

j) In implementing a property development project, the contractor gets paid a lump sum from the bank loan for the entire cost of the project development upon completion.

k) Agreement or Letter of Intent with Anchor Tenants are critical for a financial institution to finance construction of commercial properties such as shopping mall. The rationale is that they rent more spaces and thus generate substantial part of the property's revenue.

l) Market analysis for proposed real estate development considers market area, economic trends, supply and demand indicators, market conditions, and feasibility factors. A prudent developer must clear all legal permission (planning) hurdles before full commitment to the development is possible.

m) 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.

n) As an appraisal technique for evaluating of property development project from its financial profit and risk perspective, the Accounting Rate of Return (ARR) focuses on *'return of capital'* outlay whilst the Discounted Cash Flow (DCF)/Net Present Value (NPV) focus on *'return of capital'*.

o) The payback period is the time required to earn back the amount invested in an asset from its net cash flows.

p) The payback method focuses solely upon the time required to pay back the initial investment; its strength lies in its ability to track the long-term profitability of a project.

q) 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.

r) 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.

s) 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 importance cannot be underestimated.

t) Design and costing stages typically involve contributions 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.

u) 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.

v) In the process of conducting financial analysis of a development project rental revenues can be estimated by looking at comparable properties in the market and benchmarking existing rental rates.

w) Rental rates or levels provide a good indicator of the supply and demand situation for income producing properties.

x) 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.

y) 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.

[25]

Question 2

a) *"Design and costing stage of the property development process involve contributions from all members of the professional team"*. Discuss this statement with reference to any five (5) professionals highlighting their respective areas of input. (21)

b) List any eight (8) important players in the development of property both in the public and private sector. (4)

[21]

Question 3

a) Kuku Shehaama is confronted with a critical real estate investment decision to make regarding two mutually exclusive investments. With her limited financial resources, she intends to develop stalls of small units or buy a residential apartment. Capital outlay required to complete Stalls or Apartment building amount to N$60,400 and N$62,500 respectively. A detailed market survey recently conducted in the comparable market revealed the following regarding cash inflows.

Investment life	**Stalls of Small Units (N$)**	**Apartment Building (N$)**
Year 1	13,400	12,800
Year 2	15,800	13,200
Year 3	18,500	13,800
Year 4	19,800	14,000
Year 5	20,000	15,800

In the process of carrying out the investment appraisal you are informed that the projected incomes (cash inflows) for year 3 and 4 of both investments are still inclusive of insurance premium of N$1,350 and N$1,560 as well as property taxes amounting to N$2,000 and N$1,800 respectively for Stalls of Small Units and Apartment Buildings.

You are further informed that it is estimated that the Stall of Small Units and Apartment Building can be sold 5 years later for N$ 110,000 and N$ 158,000 respectively.

Determine the Accounting Rate of Return (ARR) for the two investments and advise on which of these mutually exclusive investments should be undertaken by the investor, Kuku Shehaama. (7)

b) Using the Cashflows for the investments in (a) above,

i) Determine the Payback Period for Stalls of Small Units and Apartments. [Ignore expenses on Insurance and property taxes]. (2)

Investment Period	Stalls of Small Units (N$)	Apartment Building (N$)
Year 1	13,400	12,800
Year 2	15,800	13,200
Year 3	18,500	13,800
Year 4	19,800	14,000
Year 5	20,000	15,800

ii) Which of the two mutually exclusive investments is preferred and why? (2)

iii) Support your motivation with any two (2) risks that property investments are usually exposed to. (2)

c) Uncle Fikile Mbalula is faced with a real estate investment choice the degree of dependence of which are *mutually exclusive*. He intends to develop Joy Apartment Complex or Rosestock Shopping Complex that will require an outlay of N$64 500 and N$80 200 respectively. A detailed market analysis recently carried out in the comparable market revealed the following market information regarding income flow;

Period	Joy Apartment Complex	Rosestock Shopping Complex
Year 1	N$ 13,500	N$ 15,000
Year 2	N$ 15,200	N$ 15,500
Year 3	N$ 18,500	N$ 35,000
Year 4	N$ 20,500	N$ 40,000

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.

At the end of the 4th year, the investments are expected to sell for N$175 000 and N$ 180 000 respectively.

Advise on which of these mutually exclusive investments should be undertaken when the investors target rate is 10%. (15)

[28]

Question 4

Johannes & Co. Square could reasonably be expected to be used for residential building, an office building or a commercial building. Below is detail construction and marketing information on the respective uses.

Types of Use	Area for Construction (sq. m)	Cost of construction (sq. m in N$)	Rental (N$ sq. m)	Vacancy rate (%)	Operating expenses (N$)
Residential	455	750	55	3	12,500
Office	358	850	68	2	8,400

Assume a market return of 10% on all three buildings. Market capitalization rate of 6%.

You are required to carry out an appraisal to determine the highest and best use that maximises the value of Johannes & Co. Square and advise accordingly. (11)

[11]

Question 5

a) List the three (3) Listing Contracts/Mandates as used in Estate Agency and clearly distinguish between them. (6)

b) Account for any three (3) 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? (9)

[15]
