



**NAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY**

FACULTY OF NATURAL RESOURCES AND SPATIAL SCIENCES

DEPARTMENT OF LAND AND PROPERTY SCIENCES

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| QUALIFICATION(S): BACHELOR OF PROPERTY STUDIES DIPLOMA IN PROPERTY STUDIES | |
| QUALIFICATION(S) CODE: 08BPRS 06DPRS | NQF LEVEL: 5 |
| COURSE CODE: ITV521S | COURSE NAME: INTRODUCTION TO VALUATION |
| EXAMS SESSION: JANUARY 2020 | PAPER: THEORY |
| DURATION: 3 HOURS | MARKS: 100 |

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

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| <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. The question paper contains a total of 4 questions.4. You must answer <u>ALL QUESTIONS</u>.5. Make sure your Student Number is on the EXAMINATION BOOK(S). |
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PERMISSIBLE MATERIALS

1. Non-programmable Scientific Calculator

THIS QUESTION PAPER CONSISTS OF 8 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. (20)

- a) The distinguishing feature of a leasehold interest is that it is an infinite interest.
- b) In valuation, voids refer to a rise in rent due to property being occupied.
- c) The annual payment for the use of land can be determined by using either the comparative or the residual method of valuation.
- d) The concept behind the Present Value of N\$1 is that a person may accept to receive a lesser sum now which could be invested to earn sufficient interest to ensure that by the time the future is reached, the invested sum plus the interest earned would equal N\$1.
- e) The investment method of Valuation is a method of ascertaining the capital value of the rights to future benefits to be derived from ownership of a specific interest in a specific property under given market conditions.
- f) In the Comparable Method of Valuation, the more dissimilarity there is between the subject property and comparable properties, the less the adjustments that will have to be made in order to take into account these dissimilarities.
- g) The Residual Method of Valuation is founded on classical economics with regard to the four factors of production.
- h) The Profits method of Valuation is used where it is possible to value by comparison and is not used where there is a degree of monopoly attached to property.
- i) The Cost Method of Valuation is also referred to as the Summation Method of Appraisal because the market value is found by summing up land value and the depreciated

replacement value of the building.

- j) A bright seventeen year old high school student in elementary astronomy can do a better job of estimating the distance to the moon than the old man of the mountains who has looked at the moon for 80 years.
- k) The commercial real estate sub-markets include Bungalows, townhouses, single residential buildings and double storey residences.
- l) The real property market is simply the arrangement by which buyers and sellers of virgin land, agricultural estates, industrial buildings, offices, shops and houses are brought together to determine a price at which the particular properties can be exchanged.
- m) Boyce (1984) describes the Open Market Value as 'The most probable price in terms of money which a property should bring in a non-competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is affected by undue stimulus.'
- n) As used in valuation, cost is the outlay of capital (including financing and selling expenses) for supervision, land, materials, and labour sufficient to bring an improvement into existence.
- o) Rateable Value is the amount or value assigned to a property for property tax assessment purposes.
- p) A residence on which the mortgage has been foreclosed or property being sold for unpaid property taxes would most probably not sell at its market value, because the requisite market conditions for a fair sale will likely not be met.
- q) Demand for real estate is a function of population, employment, and income.

- r) Supply of real estate is not particularly price-responsive, as construction, including conversion of buildings, amongst other restricting factors, is time-consuming.
- s) The locality within which a property is situated may have neither a positive nor negative effect on property values (also referred to as positive and negative externalities).
- t) The Present Value of One Dollar Table shows the sum to which one dollar invested today will accumulate if it earns compound interest over a specified term (usually a number of years).

[20]

Question 2

- a) There are two basic forms of interests in real property from which other lesser interests are derived. Explain these two interests. (3)
- b) Explain the following four types of values relating to property (real estate):
 - i) Mortgage Value
 - ii) Rateable Value
 - iii) Insurable Value
 - iv) Forced Sale Value(6)
- c) Various disciplines (sectors) are sources of data for land valuation. Identify any seven (7) disciplines and the type of data that they contribute. (7)
- d) The cost method of valuation is a method of ascertaining the value of a property by reference to two key elements: the cost of construction and depreciation. When using this method, what are the basic steps that a valuer must take in order to arrive at an opinion of value? (4)

[20]

Question 3

a) Highlight the five (5) major steps in valuing a property using the comparative method of valuation. (5)

b) A freehold office building is let for a term of 25 years with 5 yearly reviews on a full repairing and insuring terms at a rent of N\$ 80 000 per annum. The building was recently sold for N\$ 900 000. Calculate the Yield. (4)

c) A developer requires a 4 000 square metres site to build town houses and wishes to be advised on the likely selling price of the land. The following information is provided:

| | |
|-------------------------|-------------|
| Gross Development Value | N\$ 625 000 |
| Building Costs | N\$ 360 000 |
| Siteworks | N\$ 45 000 |
| Professional fees | N\$ 21 260 |
| Contingencies | N\$ 20 250 |
| Bridging Finance | N\$ 28 140 |
| Developers profit | 20% |

Calculate the Gross residue for land. In other words, how much should he pay for the land? (7)

d) Using the Cost Method of Valuation, calculate the Depreciated Replacement Cost of a property using the following information:

Area of the building = 200m²

Building Rate per meter square = N\$ 1 000

Cost of land improvements (e.g. Paving, landscaping) = N\$ 5 000

Depreciation = 10%

Land Value = N\$ 60 000

(7)

e) Assuming similar terms and conditions, analyze and calculate the rental value of Warehouse Unit C with a net floor area of 1200 square metres currently vacant and to let.

Comparables available:

- i) Warehouse Unit A adjacent, recently let at N\$ 9 000 per annum with a net area of 1500 square metres
- ii) Warehouse nearby let 2 years ago at N\$ 7 000 per annum in extent of 1000 square metres
- iii) A warehouse unit 10 kilometres away recently let at N\$ 4,50 per square metre in extent of 1100 square metres
- iv) A similar warehouse sold this year for N\$ 112 500.

(7)

[30]

Question 4

- a) The following sales transaction took place in the property market of Okamatapati. For each of the transactions choose the term/condition provided that best suits the unusual condition of the transaction. (7)
 - i) A person sells a house for less than its current real market value because he needs money for a business.
 - ii) A person sells a piece of land to their nephew at half of its value.
 - iii) A buyer pays more for a property than for what it would otherwise sell if offered on the market. They are aware that a new highway will soon be built in front of the property.
 - iv) A person pays more than the current real market value for a house because s/he do not want to rent and they do not have the time to look for other available houses.
 - v) A person sells a property for a low price because he is not knowledgeable of local market conditions.
 - vi) A person pays too much for a property because he does not take the time to obtain market information.
 - vii) A property is sold at auction for less than market value to pay back taxes.

Terms / Condition

- A. Forced seller
 - B. Uninformed buyer or seller
 - C. A sale between relatives
 - D. forced sale
 - E. A property with hidden value
- b) Given that the amount of N\$1 in 4 years @10% is 1.4641, calculate:-
- i) The amount of N\$1 per annum in 4 years @10%
 - ii) The Present Value of N\$1 in 4 years @10%
 - iii) The annual Sinking Fund to produce N\$1 in 4 years @10%
 - iv) The Present Value of N\$1 p.a. in 4 years @10%. (4)
- c) Given that the Present Value of N\$1 p.a. in 12 years @16% is 5.1971 and the Amount of N\$1 over the same term and rate of interest is 5.9360, calculate the Amount of N\$1 Per Annum in 12 years @16%. (2)
- d) What is the present worth of an income of N\$ 5,500.00 receivable at the end of each year for 6 years if a return on investment of 12% per annum is required? (2)
- e) Value a freehold property producing a net annual income of N\$100,000 where the appropriate capitalization rate is 8%. (2)
- f) The roof of a factory will need replacing in four years' time as part of a maintenance management programme. The current cost of the work is estimated to be N\$30,000. Building costs are forecast to increase at an average rate of 4% over this period of time. What will the cost of the repair be in four years' time? (2)
- g) How much would you pay for the right to receive N\$50,000 per annum over the next 15 years assuming average investment returns of 8% per annum? (2)
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- h) Explain the three (3) main characteristics of a property market. (3)

- i) Give three (3) reasons why there is a need for sketch plan in valuation. (3)
- j) Highlight the three (3) main parts of a valuation report. (3)

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All the best of luck.