



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 BACHELOR OF LAND ADMINISTRATION	
QUALIFICATION(S) CODE: 08BOPS 06DPRS 07BLAM	NQF LEVEL: 5
COURSE CODE: ITV521S	COURSE NAME: INTRODUCTION TO VALUATION
EXAMS SESSION: NOVEMBER 2023	PAPER: THEORY
DURATION: 3 HOURS	MARKS: 100

FIRST OPPORTUNITY EXAMINATION QUESTION PAPER	
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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 12 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) In order to have value, a good must possess at least one basic characteristic, namely scarcity.
- b) Market price may be equated to cost in any given transaction.
- c) A freehold is the outright ownership of a property and land on which it stands with no time limit.
- d) You need previous years' rental information when gathering information for a valuation using the Cost Method of Valuation.
- e) If a mother sells her house to her daughter, you expect the daughter to pay less than the market value.
- f) When either buyer or seller of a property needs to complete the transaction quickly, the result may be a lower market price
- g) To value properties like townhalls and schools, valuers rely heavily upon the income approach to value.
- h) A road built near a neighbourhood and also streetlights which never existed before will affect the neighbourhood positively.
- i) A large factory is being built close to a town. No new construction has begun on new housing facilities. Demand for housing is up because of the factory construction and new factory jobs. It is expected rent for dwelling space in that area will remain the same.
- j) The formula for the Cost Method of valuation is: $\text{Reproduction or Replacement Cost of improvements} - \text{Depreciation on improvements} + \text{Site Value} = \text{Property Value}$.

- k) Loss of jobs due to layoffs or closures may cause loss of value in property and is known as external or economic obsolescence.
- l) An arms-length transaction is where the buyer and seller know each other and act prudently.
- m) A property sold at an auction because of a default in payment by a loan holder will not reflect the market value of the property.
- n) Interest paid on the accrued interest as well as the principal is called simple interest.
- o) The location of a property can both increase and decrease its value.
- p) 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.
- q) One of the main characteristics of the property market is that it is disaggregated either on the basis of geographical location, use or tenure.
- r) A commercial building sells for N\$300,000 and its rate of return or capitalization rate is 8 percent (8%). The net operating income (NOI) is thus calculated at N\$24,500.
- s) Opportunity cost is the return or other benefit foregone in pursuing one particular investment opportunity rather than another.
- t) A forced property buyer is someone who has to take the first property that comes along although the property may be overpriced.
- u) 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. It is said the property has a hidden value.

- v) A person sells a property for a low price because they are not knowledgeable of local market conditions is known as uninformed buyer.
- w) The size of a subject building is 119m² while that of a comparable building is 130m². The adjustment to be made is to add the difference between the two to the comparable building.
- x) If the age of sale period of a comparable property is 5 months while the increment in value of properties in general is 10% per annum, then the adjustment is 3.75%.
- y) The Profits method of valuation is used to value profit generating properties that have either a legal or factual monopoly.

[25]

Question 2

For each of the following questions chose the correct answer from the alternative answers provided. Each correct answer carries 2 marks. (30)

- i) The concept behind the Present Value of N\$1 is that a person may accept to receive a higher 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.
 - A. False
 - B. True
 - C. Partially true
 - D. None of the above

- ii) How much will N\$10,000 be worth if it grows at 5% for 10 years with interest payable annually?
- A. N\$150,000
 - B. N\$163,930
 - C. N\$161,690
 - D. N\$162,889
- iii) Imaan invested N\$10,000 at 6% on her 20th birthday, how much would she have on her 40th birthday?
- A. N\$32,071.40
 - B. N\$102,857.18
 - C. N\$3,118.05
 - D. N\$67,855.91
- iv) Given that the amount of N\$1 in 4 years @10% is 1.4641, The Present Value of N\$1 in 4 years @10% will be:
- A. N\$ 0.6830
 - B. N\$ 2.1547
 - C. N\$ 11.6025
 - D. N\$ 0.9260
- v) Calculate the present value of the right to receive N\$100,000 receivable in 10 years' time assuming a discount rate of 5%.
- A. N\$62,391
 - B. N\$50,000
 - C. N\$61,391
 - D. None of the above

- vi) Calculate the value of the right to receive N\$100,000 receivable in five years' time assuming a discount rate of 8%.
- A. N\$146,930
 - B. N\$399,270
 - C. N\$68,058
 - D. N\$63,010
- vii) Calculate the present value of the right to receive N\$1,000 every year for ten years payable annually in arrears assuming a discount rate of 5%
- A. N\$7,721.7
 - B. N\$6,139.00
 - C. N\$1,000
 - D. N\$6932.1
- viii) You estimate that costs of construction are N\$2,000,000 now but you are not carrying them out for another four years. If you estimate that building cost inflation will be 6% p.a., what will they cost in four years' time?
- A. N\$2,400,000
 - B. N\$2,524,953
 - C. N\$2,423,239
 - D. N\$2,426,543
- ix) There are major repair works planned in 8 years' time for the entire industrial estate that you hold in your investment portfolio. Assuming that you can invest money at an average rate of return of 6% per annum, how much will accrue if you invest N\$50,000 at the end of each year for the next 8 years?
- A. N\$494,873.40
 - B. N\$79,692.40
 - C. N\$179,692.40
 - D. N\$490,783.36

- x) Calculate the value of the right to receive N\$100,000 receivable in five years' time assuming a discount rate of 8%.
- A. N\$146,930
 - B. N\$399,270
 - C. N\$68,060
 - D. N\$63,010
- xi) Calculate the value of a property if the yield is 7% and the net income is N\$200,000 per annum.
- A. N\$2,400,000
 - B. N\$2,524,953
 - C. N\$2,423,239
 - D. N\$2,857,142
- xii) How much would you receive in 4 years if you invested N\$5,000 every year at the end of the year at 4% interest?
- A. N\$20,225
 - B. N\$21,225
 - C. N\$27,231
 - D. N\$23,664
- xiii) If a loan of \$100,000 is taken out for a period of 25 years, then the constant annual amount required to repay the loan together with interest at 9% per annum is:
- A. N\$10,180.63
 - B. N\$9,180.63
 - C. N\$10,900.00
 - D. N\$11,180.63

xiv) 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. It is said the property has: -

- A. Tangible value
- B. Hidden value
- C. Market Value
- D. Investment value

xv) The net income of a property, divided by the value of a property, would provide the:

- A. Depreciation rate
- B. The rental rate
- C. The capitalization rate
- D. The cash flow rate

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Question 3

For each of the following questions chose the correct answer from the alternative answers provided. Each correct answer carries 2 marks.

- i) The owner of a large piece of land would like to sell it. Unfortunately, the land is located adjacent to the city sewage treatment plant. The value of this property will be affected by the incurable type of depreciation called: -
- A. Physical deterioration
 - B. Functional obsolescence
 - C. External Obsolescence
 - D. Physical obsolescence

- ii) Your subject property has one bathroom more than a possible comparable property. The properties are very similar in all other ways. You could get an adjusted sale price more representative of the market value for the subject property by:-
- A. subtracting the depreciated value of an extra bath from the sale price of the comparable
 - B. adding the depreciated value of an extra bath from the sale price of the subject property
 - C. adding the depreciated value of an extra bath from the sale price of the comparable
 - D. none of the above
- iii) The Valuation of cinema would typically be carried out using:
- A. The residual approach
 - B. The profits approach
 - C. The cost approach
 - D. The insurance approach
- iv) A valuation of a housing site would be carried out using:
- A. The residual approach
 - B. The profits approach
 - C. The cost approach
 - D. The insurance approach
- v) Valuations for insurance purposes are carried out using:
- A. The residual approach
 - B. The profits approach
 - C. The cost approach
 - D. The insurance approach
- vi) The valuation of a Government hospital would typically involve the use of:
- A. The cost approach
 - B. The income approach
 - C. The residual approach
 - D. The hospital approach

- vii) A freeholder has:
- A. A lease on a property
 - B. Ownership of a property
 - C. Property without cost
 - D. The right to evict the tenant
- viii) Suppose you have a possible comparable that is the same as the subject property except that the comparable has a finished basement valued at N\$43,000. You can derive a closer estimate of the value of the subject property by:
- A. adding N\$43,000 to the sale price of the comparable
 - B. subtracting N\$43,000 from the sale price of the comparable
 - C. using the comparable sale price as is
 - D. there is no need for comparison.
- ix) A comparable property was sold 3 months ago at the price of N\$900,000. If the sales price is adjusted for time and the percentage increase overtime is 10% per year. What will the adjusted sale price of the said comparable property be now? Answer is to be given to the nearest decimal.
- A. N\$922,500
 - B. N\$825,030
 - C. N\$990,000
 - D. N\$800,000
- x) The Effective Gross Income of an income generating property is N\$10,000,000. What is the Net Operating Income of the property if the property management expenses are at 15% and the other operating expenses are at 35%.
- A. N\$6,500,000
 - B. N\$8,500,000
 - C. N\$5,000,000
 - D. N\$15,000.000

- xi) The estimated replacement cost of a building is N\$247,000. What is the Depreciated replacement cost given that depreciation is at 25%.
- A. N\$61,750
 - B. N\$123,500
 - C. N\$308,750
 - D. N\$185,250
- xii) The Replacement Cost New (RCN) of a property is N\$960,000 and its depreciation is N\$240,000. Calculate the depreciation percentage.
- A. 22%
 - B. 24%
 - C. 40%
 - D. 33%
- xiii) A Freehold residential building as recently sold for N\$500,000. If it is rented at 70,000 per annum. What is the yield (return)?
- A. 13%
 - B. 14%
 - C. 14.5%
 - D. 12.5%
- xiv) A comparable home has a value of \$200,000. It has an extra bedroom compared to the subject. The Valuer estimates this accounts for a \$15,000 difference in value between the two properties. The subject property has a larger garage, which is worth an extra \$2,000 in value. Considering these factors, what is the subject's adjusted property value?
- A. 215,000
 - B. 185,000
 - C. 187,000
 - D. 202,000

- xv) A residual valuation may be done for three main reasons:
- A. To value a development site which a developer wants to acquire.
 - B. To determine expected profit from undertaking development where a site is already owned by the developer.
 - C. To calculate a cost ceiling for construction where land has been acquired.
 - D. All of the above

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Question 4

- a) Explain in brief the following codes of measurements in valuation:
 - i) Gross External Area (GEA)
 - ii) Net Internal Area (NIA) (4)
- b) Highlight any eight (8) important contents of a good Valuation Report. (4)
- c) Why is a Deed an important source of market data to the valuer? (4)
- d) In squatter upgrading schemes, a valuer, in addition to assessing sale prices and land rent, may be called upon to do other six (6) tasks. List the other tasks. (3)

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All the best of luck.