



**NAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY**

FACULTY OF ENGINEERING AND SPATIAL SCIENCES

**DEPARTMENT OF ARCHITECTURE AND SPATIAL SCIENCES
(LAND AND PROPERTY SECTION)**

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 2022	PAPER: THEORY
DURATION: 3 HOURS	MARKS: 100

FIRST OPPORTUNITY EXAMINATION QUESTION PAPER	
EXAMINER(S)	AMIN ISSA
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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 9 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) Valuation principles related to the sales comparison approach include supply and demand, substitution, contribution and highest and best use only.
 - ii) A major premise of the sales comparison approach is that the market value of property is related to the prices of comparable and competitive properties.
 - iii) When undertaking valuation assignments, whether to estimate market value or some other defined non-market value, the valuer is required to apply one or more valuation methods or approaches.
 - iv) Comparable sales of property that are considered not to be arm's length transactions should normally be used in the comparison approach to valuation.
 - v) In doing a reduced floor area analysis consideration is made of the relative values between the ancillary space and the main residential space.
 - vi) The age of a property based on the amount of wear and tear it has sustained is referred to as the effective age.
 - vii) 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.
 - viii) Functional obsolescence is caused by the presence of currently desirable layout, design or other features, or presence of currently desirable features.
 - ix) 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.
 - x) The principle of anticipation in the investment method of valuation may involve the anticipated future income or estimating a capitalization rate that implicitly reflects the anticipated pattern of change in income overtime.

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Question 2

- a) Select the best answer to the following multiple choice questions. Each correct answer carries 1 (one) mark.
- i) The market price is the price that the property actually sells for, so:-
- A. it may be more than the market value
 - B. It may be less than the market value
 - C. it may be the same as the market value
 - D. All of the above
- ii) The sales comparison approach is based on a very sound economic assumption that an informed buyer would pay -----for the property being purchased than what that buyer would pay to acquire an existing property with the same benefits and utility.
- A. Less
 - B. No more
 - C. More
 - D. Considerably less
- iii) Which of the following will result in a lower market price which is lower than the market value:-
- A. When either buyer or seller needs to complete the transaction quickly
 - B. If the transaction is not at arm's length, such as a sale between relatives or friends.
 - C. Both a) and b) above
 - D. When interest rates are high
- iv) The value of real estate cannot be determined in the same manner as stocks or other securities because:-
- A. Real estate transactions occur more frequently than securities transactions
 - B. Each parcel of real estate is unique
 - C. Real estate is characterized by having perfect substitutions
 - D. Real estate values are not dependent upon local influences
- v) Which of the following statements is correct in regard to the sales comparison approach?
- A. The subject property is adjusted to the comparables
 - B. The sales comparison approach is never used for income-producing properties
 - C. The comparables are adjusted to the subject property
 - D. The sales comparison approach will always result in an estimate of value less
 - E. than the estimate derived by the cost approach

- vi) Due to the fact that no two properties are exactly alike, the sales prices of the comparable properties must be _____ for each of the differences between the subject property and the comparable properties.
- A. Adjusted upwards and downwards
 - B. Ignored as they do not provide an indicative market value for the subject property
 - C. Adjusted downwards to show the inferiority of the comparables
 - D. Adjusted upwards to reflect the superiority of the comparable properties compared to the subject
- vii) When using the sales comparison approach to value, a valuer may identify differences between the subject property and the comparables. In this regard, the dollar value of a feature identified in the subject property but not present in the comparable is -----while the dollar value of a feature in the comparables but not in the in the subject property is----.
- A. Subtracted, added
 - B. Added, subtracted
 - C. Subtracted, subtracted
 - D. Added, added
- viii) Suppose there is only one comparable which sold for N\$280 000. How certain are we that this represents the going price for similar properties?
- A. Pretty certain
 - B. Not very certain
 - C. Very certain
 - D. None of the above
- ix) If a house that cost N\$250,000 with the land valued at N\$50,000 was expected to last 40 years, then the annual depreciation would be:
- A. N\$20 000
 - B. N\$5 000
 - C. N\$15 000
 - D. N\$5 500
- x) Accrued depreciation is brought about by:-
- A. The deterioration of structures due to wear and tear
 - B. A loss of value caused by changes in external factors, such as changes in the surrounding property, environment, zoning, or other factors that may decrease the property value, such as increasing crime or a change in zoning.

- C. A loss of value associated with features that have been discounted by the market, such as unfashionable design features, outdated plumbing, electrical, or heating systems, or inadequate insulation
- D. All of the above
- xi) The sales comparison approach involves various elements of comparison. Which of the following is NOT one of the elements employed in this approach?
- A. Cost
- B. Property rights conveyed
- C. Conditions of sale
- D. Date of sale
- xii) What rental unit of comparison is of primary importance in appraising office buildings with multiple tenants?
- A. Rent per room per annum
- B. Rent per floor per annum
- C. Rent per square meters of net rentable area per annum
- D. Rent per cubic meter per of gross leasable area per annum
- xiii) Which of the following elements includes typical adjustments made in the sales comparison approach?
- A. Property rights, financing, conditions of sale, location
- B. Property rights, financing, capitalization rate, location
- C. Financing, physical characteristics, date of sale, income
- D. Physical characteristics, capitalization rate, date of sale, location
- xiv) A valuation is to be made of a three-bedroom house. One comparable with two bedrooms sold for N\$500 000. The valuer makes an adjustment of N\$50 000 to the comparable to account for the difference in the number of bedrooms. The adjusted sales price of the comparable is:
- A. N\$450 000
- B. N\$550,000
- C. N\$600 000
- D. N\$650 000
- xv) The general principles and procedures underlying the comparable sales approach are applicable to which of the following type of property?
- A. Single-family residential only
- B. Single family and multiple-family residential only
- C. Land sales only
- D. Any type of property except special purpose property

- xvi) A house has an economic life of 40 years, a remaining economic life of 20 years and an actual age of 25 years. What is the effective age of this structure?
- A. 20 years
 - B. 25 years
 - C. 21 years
 - D. 15 years
- xvii) A house in Wanaheda has an economic life of 40 years, an effective age of 10 years, an actual age of 20 years, and a replacement cost of N\$200,000. What is the amount of depreciation?
- A. N\$100,000
 - B. N\$50,000
 - C. N\$150,000
 - D. None of the above
- xviii) What is the capitalization factor for years purchase in perpetuity at a yield of 8% to 1 decimal place?
- A. 12.5
 - B. 10.0
 - C. 11.5
 - D. 9.0
- xix) Using the cost approach, determine the market value of a property with a 300 square metre building if construction costs new are N\$5,000 per square metre, land value is estimated to be N\$400,000 and total depreciation on the building to date is estimated to be 8%?
- A. N\$1,380,000
 - B. N\$1,900,000
 - C. N\$1,780,000
 - D. N\$3,214,480
- xx) A comparable property sold 8 months ago for N\$123,200. If the appropriate adjustment for market conditions is 0.25% per month, what would be the market-adjusted normal sale price of the comparable property?
- A. N\$ 125,312
 - B. N\$ 125,444
 - C. N\$ 125,664
 - D. N\$ 125,686

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Question 3

- a) Kalunguyeye wants to proceed with the purchase of a plot in Rocky Crest which is owned by Bulicheka. He intends to construct a home on the property. Kalunguyeye has asked you to estimate the value of the site based on other comparable sales in the area. You elect to estimate site value using the Comparative Sales Method.

Assume that site values have been increasing by 0.5% per month during the past year. All selected sites are comparable to the subject property and are located in the same locality. Based on the information provided below, provide an estimate of site value and indicate which sale is the most suitable comparable to the subject property. Include reasons in support of your estimate. (10)

<u>Sale</u>	<u>Sale Date</u>	<u>Sale Price</u>	
1	10 months ago	N\$104 600	(2)
2	6 months ago	N\$105 450	(2)
3	3 months ago	N\$108 275	(2)
4	2 months ago	\$109 250	(2)

- b) Use the information provided below to create a Sales Comparison table in order to assess the value of the subject property.

	Subject	Comp A (N\$)	Comp B (N\$)	Comp C (N\$)
Sales price		126 500	134 000	121 000
No. of Bedrooms	4	4	4	3
No. of Bathrooms	4	3	3	2
Air Conditioner	Yes	No	Yes	Yes
House Size in Sq.m	200	210	210	200
Mortgage	No	No	Yes	No

Market Information

The market value of: 1 bedroom is N\$13 200; 1 bathroom is N\$12 700, an air conditioner is N\$4 500 and each 10 square metre over 200 sq.m is N\$10 000 while a mortgage is worth N\$700. (10)

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Question 4

- a) A developer in Keetmanshoop, 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)

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

Effective Gross Income	N\$500 000	
Fixed Operating Expenses	N\$41 000	
Variable Operating Expenses	N\$55 200	
Replacement Allowance	N\$35 600	
		(10)

Using the information provided above, calculate the:

- 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 the yield for similar type of properties being 8% (2)
- c) A 3-bedroom townhouse in Klein Windhoek was let 2 years ago for a term of 10 years with 5-yearly reviews on full repairing and insurance terms at a rent of N\$80 000 per annum. The current full rental value on the same basis is estimated at N\$85 000. An adjacent similar property was sold last week for N\$850 000. Value the freehold interest.

Hint1: Firstly, calculate the Yield of the freehold.

Hint2: The yield for the Reversion should be higher by an additional 0.5% than that for the term, e.g if the yield for term is 8% then that of reversion should be 8.5%. (10)

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Question 5

- a) The reduction in the usefulness or the desirability of a property could be caused a number of factors 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.
- b) Calculate the Value of the property with an area of 224 sq. metres. Construction rate is N\$6000 per sq. metres, the value of the land is N\$600 per sq. metres and size is 25m by 25m. Depreciation is at 1% per annum and the building was built in 2012. (5)
- c) An operation in Khomasdal operating from its own premises generates an income of N\$700 000.00 annually from its operation, with an annual purchases of N\$310 000.00 and gross operating expenses of N\$180 000.00 yearly. The annual rental value is set at 30% of net profit. Calculate the capital value of the property if the yield is 12.5 %. (6)
- d) Define CAMA and list its four (4) essential features. (4)

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I wish you all the best!!