



**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: 08BPRS 06DPRS	NQF LEVEL: 6
COURSE CODE: PMV611S	COURSE NAME: PRINCIPLES AND METHODS OF VALUATION
EXAMS SESSION: JULY 2023	PAPER: THEORY
DURATION: 3 HOURS	MARKS: 100

SECOND OPPORTUNITY/SUPPLEMENTARY EXAMINATION QUESTION PAPER	
EXAMINER(S)	SAM M. MWANDO
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. 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 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 mark. (20)

- a) In the calculation of depreciation using the cost approach, remaining economic life is economic life plus the effective age of a building. (1)
- b) The profits method of valuation is applicable to properties such as service stations and religious buildings in an active market. (1)
- c) The actual age of a building is defined as the number of years which have elapsed since the construction was completed. (1)
- d) Of the three causes of depreciation on buildings, only functional obsolescence cannot be cured. (1)
- e) In valuing income producing properties, there are two main approaches we can use, the direct capitalization and the capital flow method. (1)
- f) The gross operating income includes insurance, utilities, management fees, dividends, and vacancies. (1)
- g) In determining the yield on a property, we consider the risk-free rate, the sector risk, illiquidity risk premium, management premium and expected capital gain. (1)
- h) In applying the comparative method of valuation, we compare unique properties which have sold in the past and using evidence of those transactions to assess the value of the subject property. (1)
- i) The comparative method of valuation is most suited for residential properties where there is a freehold interest or a long leasehold interest. (1)
- j) The Amount of N\$1 Per Annum refers to the amount to which annual deposits of N\$1 each will grow in each number of years and at a stated rate of interest. (1)

- k) When the market is weak and few market transactions are available, using the profits method is the next best alternative to valuing residential properties. (1)
- l) The cost approach is preferred in the valuation of residential properties because of their heterogenous nature where each piece of land is unique. (1)
- m) The gross external area is the area of a building measured externally. (1)
- n) The reduced floor area analysis is a method used to derive a value per square metre for a property. (1)
- o) Where the sales are found to have resulted from a forced sale or foreclosure, those comparables may not be the best to use in arriving at the value of the subject property. (1)
- p) Effective demand is the level of demand that represents a real intention to purchase by people with the means to pay. (1)
- q) A reasonable assumption to make in property valuation is that property values will remain static throughout a foreseeable period. (1)
- r) The layout of a farm manager's house can assist us in determining the value of an agricultural property. (1)
- s) Large and beautifully manicured lawns normally assist us in determining the value of office buildings. (1)
- t) A double-storey house located in Khomasdale is an example of a special use property. (1)
- [20]**
-

Question 2

- a) What are the underlying principles of each of the following methods of valuation?
- i) Investment method (2)

- ii) Cost approach (2)
- b) Define the following types of depreciation and give a minimum of two (2) examples for each of them.
- i) Physical deterioration (2)
- ii) Functional obsolescence (2)
- iii) Economic obsolescence (2)
- c) Assuming similar lease terms and conditions, analyse and calculate the rental value of a residential property in Khomasdal with a net floor area of 145m² currently vacant and to let. The following are comparable properties: (5)

Comparables	Extent in m ²	Location/locality	Date of Lease	Rentals (N\$)	Value (N\$)
Property A	150	Adjacent	Recently	48 000	
Property B	100	Nearby	January 2019	36 000	
Property C	150	Nearby	November 2018		450 000

- d) Consider the following data on a property in Windhoek West:
- | | |
|--------------------------|-------------|
| Sale price | N\$ 400 000 |
| Value of Land | N\$ 100 000 |
| Cost of Improvements new | N\$ 450 000 |
- i) Calculate the Lump-sum dollar depreciation as well as the Lump-sum percentage depreciation of the property. (3)
- ii) Calculate the average annual percentage depreciation if the property is 8 years old. (1)
- iii) Which method of calculating depreciation is this? (1)

[20]

Question 3

- a) A shop with an area of 130 square metres is currently let at N\$ 5 000 per annum. Analyse the transaction to value an adjacent shop which has an area of 144 square metres. Yields for shops are presently at 8%. (8)
- b) Assess the Rental Value for Tura Hotel given the following information obtained from their account books:

Gross receipts:	Bar	N\$125 000
	Restaurant	N\$ 90 000
	Rooms	N\$ 70 000
Purchases		N\$ 60 000
Employee wages		N\$ 40 000
Rates		N\$ 2 000
License		N\$ 2 500
Insurance		N\$ 10 000
Repair and Maintenance		N\$ 10 000
Depreciation		N\$ 8 000
Tax		N\$ 10 000
Audit Fees		N\$ 4 000
Advertising		N\$ 3 000
Bank Charges		N\$ 2 000

Tenants Remuneration stands at 12% while Risk Taking and Entrepreneurship amounts to 15%. The interest on borrowed capital of N\$150 000 is about 14%. (12)

[20]

Question 4

- a) Explain the circumstances where a valuer would use the Residual Method of Valuation? (3)
- b) Outline the three (3) main purposes for which a Residual valuation may be undertaken. (7)
- c) Outline any three (3) variables to consider in determining the Gross Development Value. (3)

- d) Explain the following terms as they apply to Residual Method of Valuation:
- i) Developer's profit and risk (2)
 - ii) Professional fees and costs (2)
 - iii) Advertising and marketing (3)

[20]

Question 5

- a) Explain the following as used in the profits method of Valuation:
- i) The profits principle (2)
 - ii) Legal Monopoly (1)
 - iii) Factual monopoly (1)
 - iv) Goodwill (1)
- b) Why is the profits method of valuation a preferred method when valuing Petrol station? (5)
- c) Airport Petrol Station comprises a garage and self-service petrol station situated on a busy road in Windhoek. The development comprises a forecourt, a 550m² convenient shop, a 250m² storeroom and a 850m² workshop. Petrol sales are at average of 275,000 litres per annum at N\$20.65 per litre. Current net rentals for similar shops are N\$80/m² per month, workshops and storeroom rentals are N\$30/m² and N\$22/m² per month respectively. Outgoings are set at N\$ 250,000 per annum. According to your research in the market, the market yields for this kind of investment is approximately 11%. However, on close analysis, you discover that the service station would yield a 2 percentage points better than the market yield. Assuming a freehold title, calculate the value of the property. (10)

[20]
