



UNIVERSITY  
OF  
JOHANNESBURG

## Department of Finance and Investment Management

# Property Valuation and Management 3B

PVM3B01

### LAST ASSESSMENT OPPORTUNITY

NOVEMBER 2015

**Time: 3 hours**

**Marks: 150**

**Assessors:** Mr M Booyens

**Moderators:** Mr P Eloff

#### INSTRUCTIONS:

- This paper consists of **7** pages.
- Answer **ALL** questions.
- Start each question on a new page.
- Silent, non-programmable calculators may be used, unless otherwise instructed.
- Show all calculations clearly.
- Round all calculations to **TWO** decimal places, unless otherwise instructed.
- Answers with tippex and in pencil will not be marked.
- Scratch out open spaces and empty pages, **or else NO REMARK will be considered.**
- **HAND IN YOUR QUESTION PAPER.**

Question	Topic	Marks	Time
1	Various Topics	50	60 minutes
2	DCF techniques	40	48 minutes
3	Expropriation	20	24 minutes
4	Specialised properties	20	24 minutes
5	Mass Valuations	20	24 minutes
		<b>150</b>	<b>180 minutes</b>

**QUESTION 1****[50 marks]**

This question consists of three independent parts.

**PART A: CALCULATION**

Oshivelo Offices is a new office complex developed by Rencon Developers. The complex is situated in the south of Johannesburg in an area which is undergoing some security problems with hijackings and house robberies taking place. There are 64 units of varying sizes in the complex. The newly built complex is expected to have a vacancy rate of only 2.5%. The reasoning behind this estimation is the heightened security measures put in place at the complex. There will be two full time guards at the complex, one manning the gate and the other patrolling the grounds, visitors will only be granted access with positive identification and pedestrian access is only allowed via a fingerprint system. Similar complexes in the area have vacancy rates of 10%.

The units within the complex are as follows (indicating the monthly rental to be received and a market related comparison):

Nr of units	Type	Size(sq m)	Expected rent	Marketrent
15	Small	24	R2 900	R2 600
20	Medium	40	R3 200	R3 000
20	Large	72	R4 000	R3 800
9	Extra Large	104	R5 500	R4 800

There are parking bays for each office unit and they will obtain a rental of R85 each per month. The parking is allocated on a per square metre method with one parking space allocated for each 8 square metres the office occupies.

**REQUIRED**

- 1.1 Determine the rental and other income that should be used in a valuation of the above property if the direct capitalisation method is to be used. You need only show the determination of the income numbers. **(20)**

**PART B: FEASIBILITY STUDIES**

A property developer is someone who develops a property so as to realise the properties potential. This is done by procuring a portion of farm land, servicing and proclaiming the land and then selling off the vacant serviced stands, or erecting top structures and selling off the completed units.

**REQUIRED**

- 1.2 List and briefly discuss 5 (five) aspects the developer need to consider in establishing the feasibility of the development. **(10)**

## **PART C: FARM LAND VALUATIONS**

The valuation of farms requires special valuation skills and knowledge of the AGRI sector. The valuer has to know the right terminology during interviews. There are a number of valuation methods that can be followed when valuing property under which the following will count:

1. Direct Comparison Method
2. Depreciated Cost Method
3. Income Capitalisation Method
4. Accounts Method or Going Concern
5. Residual Land Value Method (DCF)
6. Turnover Method

The problem with farm valuations is that properties are very seldom homogeneous:

1. Different in size
2. Different location
3. Different soil structure
4. Different components
5. Etc.

And most often a combination of 2 or more methods will be applied.

### **REQUIRED**

1.3 Describe the macro and micro economic factors that affect land value in farm valuations. You should discuss five macro and five micro factors. **(20)**

**QUESTION 2****[40 marks]**

Discounted cash flow (DCF) is a valuation method used to estimate the attractiveness of an investment opportunity. DCF analysis uses future free cash flow projections and discounts them to arrive at a present value, which is then used to evaluate the potential for investment.

**Income Capitalization** is a valuation method appraisers and real estate investors use to estimate the value of income producing real estate. It is based upon the premise of anticipation i.e., the expectation of future benefits. There are several ways to estimate value using "capitalization". These include direct capitalization and yield capitalization. The method used depends upon several factors such as the timing and regularity of the cash flows, period of time the investment is held, whether or not long term leases are involved, and so forth.

**REQUIRED:**

- 2.1 Discuss the difference in approach for the three above valuation methods. **(20)**
- 2.2 Discuss the differences in the rates you will use as a discounting factor in the three above methods of valuation. Highlight in your answer the factors that influence these rates. **(20)**

**QUESTION 3**

**[20 marks]**

When calculating the total amount payable to the expropriatee when expropriation of a property has taken place, we need to calculate the market value, the actual financial losses suffered and the solatium.

Consider a scenario where it has been determined that the amount payable before the solatium is R1 450 000.

**REQUIRED**

- 3.1 Calculate the total amount that will be payable including the solatium. **(10)**
- 3.2 Briefly discuss the three components that make up the compensation payable to the expropriatee. **(10)**

## **QUESTION 4**

**[20 marks]**

### **Golf course example 1:**

Eagle Canyon Country Club is a top standard 18-hole golf course with a rating of par 72, with a driving range, and was remarkably constructed out of an old sand quarry. The course was constructed by "Wonder Gardens" and was designed by the very talented Douw van der Merwe.

The course plays along the Canyon cliffs, along and over beautiful water features, with the clubhouse perched on the highest point with a full view of all 18 holes. Enjoy your game.

### **Golf course example 2:**

Ruimsig Country Club

South Africa's Countryside Gem

Immerse yourself in the finest golf experience at Ruimsig Country Club. Nestling in the tranquil countryside of Roodepoort, west of Johannesburg, lies one of South Africa's most challenging Championship Golf Courses, Ruimsig Country Club. There are 72 bunkers to contend with and seven water hazards offering all handicap golfers a challenge yet the good golf shot will always be rewarded.

### **REQUIRED**

In determining the value of specialised properties it is often difficult or near impossible to find comparable sales. Discuss how you would go about determining the value of a golf course.

**(20)**

**QUESTION 5****[20 marks]**

CAMA is a system that uses property data to develop various models that can be applied to specific pockets of property to derive most probable values, depending on the quality (not necessarily quantity) of data (input) and the required result (output). Models can range from very simple to extremely complex. CAMA is also a system that is used in mass valuations.

**REQUIRED**

- 5.1 Briefly discuss how a value for a property is derived in a mass valuation system. **(10)**
- 5.2 List the following facts for the COJ valuation roll:
- Number of entries
  - Total value
  - Sectional title entries
  - Date of most recent valuation
  - Aerial photography system used
- (10)**

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