



UNIVERSITY
OF
JOHANNESBURG

Department of Finance and Investment Management

Advanced Property Valuation and Management B

PVM02X7 / PVM8X02

LAST ASSESSMENT OPPORTUNITY
OCTOBER 2015

Time: 3 hours

Marks: 150

Assessor: Mr M Booyens

Moderator: Mr D Griffiths

INSTRUCTIONS:

- This paper consists of **10** pages and an **Appendix** of **3** pages
- Answer ALL questions in the **answer book** provided.
- Silent, non-programmable calculators may be used, unless otherwise instructed.
- Where applicable, show all calculations clearly.
- Answers with Tippex and in pencil will **not** be marked.
- Scratch out all open spaces and empty pages.
- All the best.

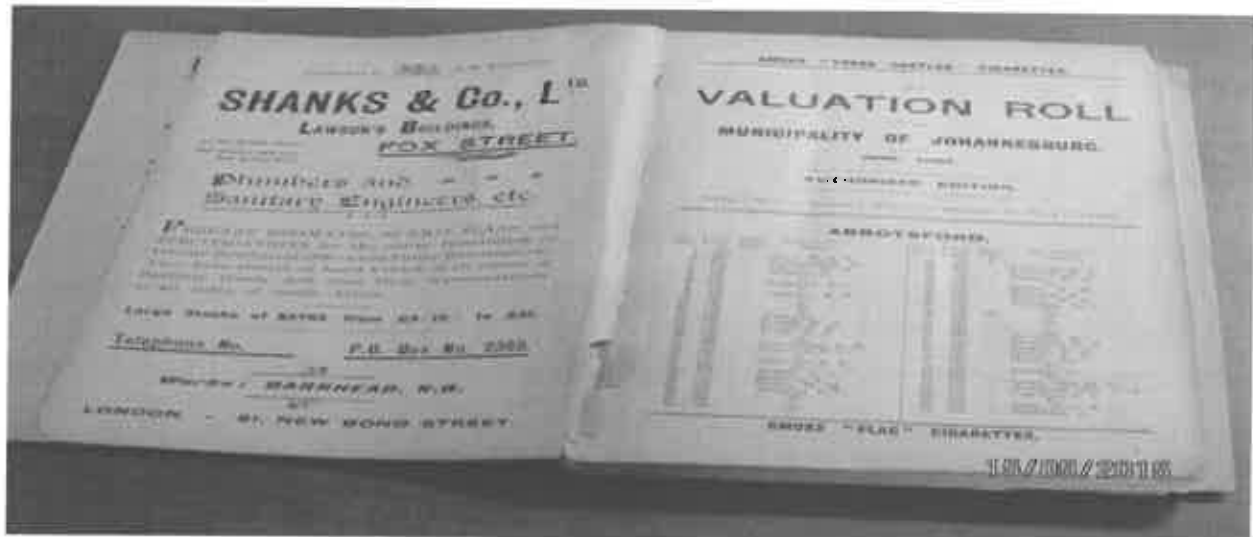
Question	Topic	Marks	Time
1	Various Topics	30	36 minutes
2	Leasehold valuations	20	24 minutes
3	IVS and Guidance Notes	20	24 minutes
4	Mining	40	48 minutes
5	Retirement Villages	40	48 minutes
		150	180 minutes

QUESTION 1

[30 marks]

This question comprises of **two** independent parts.

PART A



REQUIRED:

Pictured above is the first valuation roll of the Municipality of Johannesburg. Discuss how the Johannesburg municipality currently use Computer Aided Valuation techniques to compile their Valuation role. (10)

PART B

State whether the following statements are **TRUE** or **FALSE**

- 1.1 The sales comparison approach to appraisal is preferred because it is the only objective appraisal approach.
- 1.2 The rationale for using the cost approach to appraisal is that any informed buyer would not pay more for property than what it would cost to buy the land and build the structure.
- 1.3 When conducting an appraisal, only one of three approaches should be selected to determine the property value.
- 1.4 In general, real estate is usually considered more risky than bonds but less risky than shares.

- 1.5 The demand for retail space should be examined in terms of the characteristics of the tenants demand in a given market. **(5 x 2 mark each = 10)**

Answer questions 1.6 – 1.10 by ONLY writing the **correct answer** on your answer sheet.

- 1.6 Which of the following factors is NOT part of the definition of market value?

- A Payment is made in terms of cash in South African Rands or a comparable financial arrangement.
- B The property has been on the open market for less than a year.
- C Buyer and seller are typically motivated.
- D Price is not affected by special or creative financing. **(2)**

- 1.7 Regarding the value of a property, an appraisal:

- A Calculates value.
- B Confirms value.
- C Estimates value.
- D Determines value. **(2)**

- 1.8 Which of the following steps normally would be used in the cost approach to value?

- A Estimate net operating income of the property.
- B Multiply accrued depreciation by the assessed cost.
- C Add actual construction costs to the land value.
- D Subtract accrued depreciation from the replacement cost. **(2)**

- 1.9 A comparable property has a feature that is superior to the subject property. What adjustment would be made in the sales comparison approach to value?

- A Value of the feature would be subtracted from the sales price of the comparable property.
- B Value of the feature would be added to the sales price of the comparable property.
- C Value of the feature would be subtracted from the value of the subject property.
- D Value of the feature would be added to the value of the subject property. **(2)**

- 1.10 An analysis of whether land can be purchased and developed profitably is known as:

- A Financial analysis.
- B Feasibility study.
- C Turnkey study.
- D Project profitability. **(2)**

QUESTION 2

[20 marks]

Buying Mozambique property made simple

If there's one thing SA investors need to know about buying property in Mozambique, it's the fact that there is no such thing as a "99-year lease" in that country

So says Jonathan Lunenburg, who recently acquired the Chas Everitt International Notebook® licence for Inhambane, and notes that this misconception has caused SA buyers keen to acquire holiday and residential property in Mozambique much trouble in the past.

There are actually three types of property ownership in Mozambique, he says, the first being the "real registered right" (title deed) that applies to all new developments in tourism-designated areas and is ownership in perpetuity.

These developments – whether for timeshare, fractional ownership or holiday homes - are all subject to the Periodic Housing Decree, which requires the developer to meet a string of requirements to do with land use and zoning, environmental assessment, development plans and construction standards, the availability of services and financial guarantees before he can obtain certification for the development.

What is more, the Decree makes it illegal for anyone to promote, market or sell any such development or part of a development unless it has been properly certified. "So the bottom line for South African and other investors is that if you are offered property in a new development in Mozambique and the developer cannot produce his certificate for the project in terms of the Periodic Housing Decree, he is breaking the law, and more importantly, you should not even consider buying there."

As for existing or pre-owned property, there are two types of "land tenure" in Mozambique, says Lunenburg, who amassed many years of experience in international financing and property development before establishing himself in Inhambane.

"In rural areas you can have tenure of the land by 'right of use' (which is 45 years plus 45 years renewable), in terms of which any structure that is built on the land remains yours.

"And in municipal areas, you get tenure of the land by way of a 'certificate of usage' (in perpetuity), in terms of which you not only own any structures built on the land but register your ownership."

He says that in both these instances, the legal holder of tenure – which could be a lodge or a hotel - will have a document known as an Alvare, but that this document does not give the holder any kind of permission to sell off any structures built or to be built on the land, such as timeshare units or holiday chalets.

"Quite simply, there are no exceptions to the rule that holiday developments have to be certified in terms of the Periodic Housing Decree and if potential buyers remember this they will not be at risk."

As for good reasons to invest in Mozambique, Lunenburg says these include the fact that the country already has the second-highest economic growth rate in Southern Africa. "In addition, it is set to be the world's fourth biggest coal producer by 2015, and also has colossal reserves of natural gas, iron, copper and gold as well as vast tracts of fertile agricultural land. As a result, billions of dollars are being spent on developing and upgrading the roads, railways, harbours and other infrastructure, while the demand for housing is rising."

In Inhambane, however, the focus is on tourism and likely to remain so. The area boasts miles of unspoilt beaches and clear, warm seas perfect for divers and anglers, as well as an international airport and direct flights to and from Johannesburg, lots of restaurants and pubs, and good medical and banking facilities.

“And with the country opening up and demand growing, now is a good time to invest in property here, especially in the Praia da Barra, Tofo/Tofino and Inhambane City precincts that make up the municipal district. However, it is obviously very important to get the correct certification for any purchase or proposed development, and that’s where our expertise comes in.”

SOURCE: [HTTP://WWW.PROPERTY24.COM/ARTICLES/BUYING-MOZAMBIQUE-PROPERTY-MADE-SIMPLE/15865](http://www.property24.com/articles/buying-mozambique-property-made-simple/15865)

REQUIRED:

List and briefly discuss five (5) factors that impact on the value of leasehold especially in relation to property owned on this basis in a foreign country. **(20)**

QUESTION 3

[20 marks]

The **International Valuation Standards Council (IVSC)** is an independent, not-for-profit, private sector standards organization incorporated in the USA and with its operational headquarters in London, UK. The IVSC develops international technical and ethical standards for valuations on which investors and others rely.

The IVSC is responsible for developing the International Valuation Standards and associated technical guidance. To ensure that the public interest is effectively protected it also engages with other bodies active in the regulation of the financial markets to ensure that valuation issues are properly understood and reflected. The IVSC works cooperatively with national professional valuation institutes, users and preparers of valuations, governments, regulators and academic bodies, all of whom can become members of the IVSC and play a role in advising the Boards on their agenda priorities.

In developing its standards and technical guidance the IVSC follows a process of issuing discussion papers and exposure drafts for public comment. The Standards Board and Professional Board meetings are open to observers.

REQUIRED:

Briefly discuss the suitability of the IVS to be used in valuations in South Africa. **(20)**

QUESTION 4

[40 marks]

ARTICLE 1

Amplats to sell Rustenburg operations to Sibanye
by Allan Seccombe, September 09 2015, 09:28

ANGLO American Platinum (Amplats) agreed to sell its Rustenburg mining and concentrator operations to Sibanye Gold for R1.5bn in an upfront payment and at least R3bn later.

Amplats put its Rustenburg and Union mining operations up for sale as it focused on its shallower, lower-cost and more mechanised assets.

Sibanye CEO Neal Froneman has openly spoken of wanting to buy platinum group metal (PGM) assets and that the company, which operates four underground gold mines in Gauteng and the Free State, was in talks with Amplats.

"We have for some time indicated our interest in participating in the PGM sector and believe that these assets provide an attractively priced entry at an advantageous moment in the price cycle," Mr Froneman said on Wednesday.

The mines and concentrators give Sibanye 800,000oz of four PGMs a year and a resource of more than 88-million ounces of PGMs.

"The Rustenburg operations are quality assets with long-term and sustainable potential under Sibanye's control, given their proven and successful track record of operating conventional mines in SA," said Amplats CEO Chris Griffith.

Sibanye will pay R1.5bn upfront in either cash or the issue of Sibanye shares. A deferred payment will be calculated as 35% of annual free cash generated by the Rustenburg assets over a six-year period, with a floor of R3bn.

Up to the end of December 2018, Sibanye will sell all concentrate to Amplats and then for eight years after that it will toll-treat its concentrate with Amplats, giving Sibanye access to its own metal to market and sell.

Sibanye will vendor finance the entrance of black economic empowerment partners to acquire 26% of the Rustenburg assets. The partners will include employee and community trusts, Royal Bafokeng Holdings and the Bakgatla-Ba-Kgafela Traditional Community.

SOURCE: <http://www.bdlive.co.za/business/mining/2015/09/09/amplats-to-sell-rustenburg-operations-to-sibanye>

ARTICLE 2

Three Years Ago This Coal Mine Was Worth \$624 Million. Now It Sold for \$1

Jesse Riseborough and Juan Pablo Spinetto

July 31, 2015 — 1:31 PM SAST Updated on July 31, 2015 — 7:02 PM SAST

The destructive force of a collapse in world coal prices has been underscored by the sale of a mine valued at A\$860 million (\$631 million) three years ago for just a dollar.

Brazilian miner Vale SA and Japan's Sumitomo Corp. sold the Isaac Plains coking-coal mine in Australia to Stanmore Coal Ltd., the Brisbane-based company said Thursday in a statement. Sumitomo bought a half stake for A\$430 million in 2012.

A slump in the price of coking coal, used to make steel, to a decade low is forcing mines to close across the world and bankrupting some producers. Alpha Natural Resources Inc., the biggest U.S. producer, plans to file for bankruptcy protection in Virginia as soon as Monday, said three people with direct knowledge of the matter. It was valued at \$7.3 billion in 2008.

Isaac Plains in Queensland "was one of the most exciting coal projects in Australia," Investec Plc analysts said in a note to investors on Friday. The site has a resource of 30 million metric tons, according to Stanmore.

"The outlook for coal is still very difficult," Roger Downey, Vale's executive director for fertilizers and coal, said on Thursday after Stanmore announced the sale. "We see even in Australia mines that are still in the red and at some point that has to change. We have quite adverse and challenging markets."

Restart Output

Coal's demise is just part of a broader slump in commodity prices, which fell to the lowest in 13 years this month. The benchmark price for coking coal exported from Australia has slumped 24 percent this year to \$85.40 a ton on Friday, according to prices from Steel Business Briefing. The quarterly benchmark price peaked at \$330 a ton in 2011, according to Bloomberg Intelligence.

Production from Isaac Plains began in 2006 and continued through 2014, when it was closed. Its peak output was 2.8 million tons a year, with coal sold to steelmakers in Japan, South Korea and Taiwan. Stanmore said it would be responsible for A\$32 million in rehabilitation costs linked to the mine.

The company plans to restart output at Isaac Plains at a reduced production rate. It sees "significant" synergies with its adjacent Wotonga deposit, only recently acquired and yet to be exploited. It's also secured a \$42 million loan from Taurus Mining Finance Fund to help finance a return to production.

Stanmore shares jumped 67 percent Thursday after announcing the purchase. The company has a market value of A\$30 million.

The closing of Isaac Plains and a second mine in Australia shut last year, Integra Coal, led to a 7.2 percent reduction in Vale's total coal output in the first half of 2015. It took a \$343 million writedown on its Australian coal assets, part of total impairments of \$1.15 billion last year, Vale said Feb. 26.

SOURCE: <http://www.bloomberg.com/news/articles/2015-07-31/the-600-million-mine-sold-for-a-dollar-underscores-ruin-of-coal>

REQUIRED:

- 4.1 Briefly discuss 4 aspects that differ in the valuation of a mine to that of the valuation of an income producing property. **(20)**
- 4.2 Discuss with reference to Article 1 and Article 2 how market forces have had an impact on the value of the two mines discussed in the articles. **(20)**



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About Waterval Retirement Village

The Village is owned by the company WATER VALLEY ESTATE BLOCK LIMITED. (Ref: Nr. 1763/07923/06)

The Village is managed by a Board of Directors, elected at an Annual General Meeting, together with an appointed Administrator and Company Secretary. Three Directors retire each year on a three year rota.

The Financial Year ends on 28 February, and the Annual General Meeting is held before the end of August.

A share entitles the shareholder to the use of a designated Unit and the assigned garage(s), together with all communal amenities of the Village. No furniture may be stored in garages. The use of tumble driers, fridges or deep freezers, in the garages and machinery and power tools by food and retail work enthusiasts may result in the shareholder having to pay for estimated electricity usage.

The Company owns all land, buildings and fixed installations. Requests for any alterations and/or alterations to the building must be in writing and, where applicable, be accompanied by plans and be approved by the Board before work is commenced. All contractors/labourers must be registered with the Administrator and Security. The contractor is responsible for the clearing of all rubble and to leave the site in an acceptable condition. All work done must be to the complete satisfaction of the Board, as the alterations/additions then become the property of the Company. The shareholder is responsible for all costs involved in the alterations/additions.



The outside of the buildings is the Company's responsibility for all maintenance, painting, repairing of leaking roofs, replacement of broken geyser, etc.

The inside of the dwelling is the shareholder's responsibility, for painting, replacement of electrical appliances and elements, light, tap washers, toilets and cisterns, baths, hand basins, geyser elements and thermostats, carpets, laminated flooring and windows broken by the shareholder.

Electric meters are read monthly by an independent meter reader and readings with the amount due are attached to the levy account. Levy accounts are placed in the Village post boxes approximately six days prior to each month end. Cheques for payment should be placed in the Office post box. Payments may also be made electronically or by debit order.

Office hours are strictly 08:00 to 12:30. The office is manned in the afternoons until 16:00, but access is not available for residents in order to enable the staff to keep the administration work up to date. The Office is closed on Saturdays, Sundays and Public Holidays. E-mail, facsimile and Photocopy services are available in the Office. A small reception fee is charged.

Accommodation - Unit details

Units available for Sale		
Unit	Type & Square Metres	Price
72	(100m ²) Flat 1st Floor	R820 000
129	(83m ²) Flat 1st Floor	R780 000

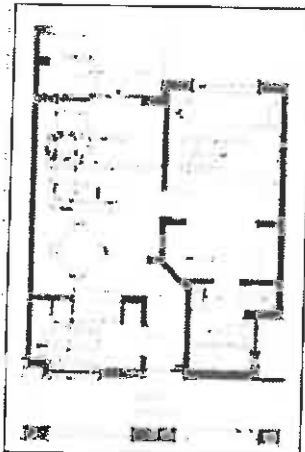
Unit categories		
Type	Square Metres	Details
Type A Flat	63sqm	1 Bedroom + Full Bathroom
Type B Flat	80sqm	2 Bedrooms + Full Bathroom
Type C Flat	100sqm	2 Bedrooms + Full Bathroom
Type D Cottage	100sqm	2 Bedrooms + Full Bathroom



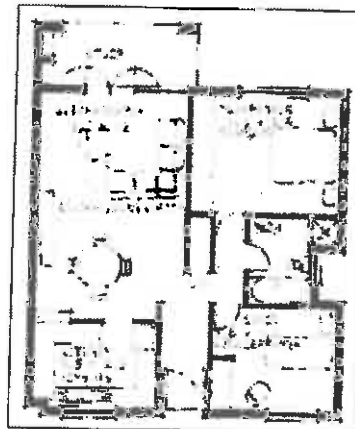
Type A Flat 63sqm



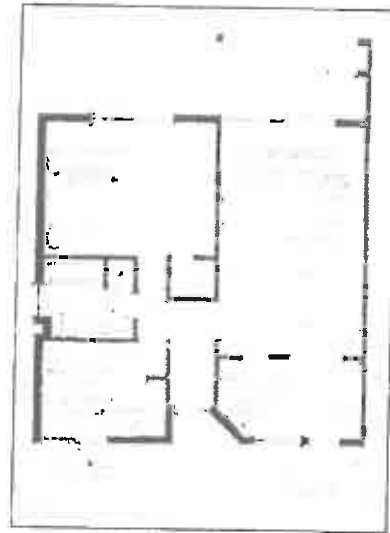
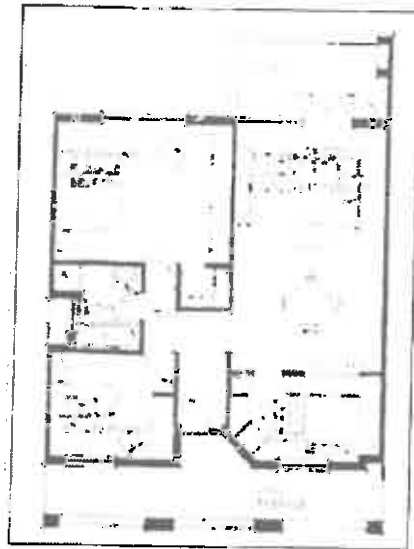
Type B Flat 80sqm



Type C Flat 100sqm



Type D Cottage 100sqm



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DTG Planning and Architecture Design