



UNIVERSITY  
OF  
JOHANNESBURG

## Department of Finance and Investment Management

### Fixed Property B

ADPVM03 / S3BPIQ9 / BPIF009

#### LAST ASSESSMENT OPPORTUNITY

NOVEMBER 2016

**Time: 3 hours**

**Marks: 150**

**Assessors:** Mr M Booyens

**Moderators:** Mr L Aldum

#### INSTRUCTIONS:

- This paper consists of **8** 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	Special properties	20	24 minutes
4	Farm land valuation	20	24 minutes
5	Servitudes	20	24 minutes
		<b>150</b>	<b>180 minutes</b>

**QUESTION 1**

**[50 marks]**

This question consists of four independent parts.

**PART A: REZONING AND MASS VALUATIONS**

Rates and taxes is one of the major contributors to a local authority's cash flow and income. The rates and taxes payable are also directly linked to the market value of the property. If a property is rezoned the market value of the subject property will change too as well as the rates payable.

**REQUIRED**

- 1.1 Discuss how rezoning will have an impact on rates collected by a local authority. Your answer should include a particle example as well as a discussion of the example of any scenario. **(8)**

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**

- 1.2 Briefly discuss how a value for a property is derived in a mass valuation system. **(15)**

**PART B: RESIDENTIAL MANAGEMENT**

Sectional title developments have become very popular in recent times. The South African concept is based on a shareblock scheme form 1971 in New South Wales.

**REQUIRED**

- 1.3 Briefly discuss the relationship between and the duties of the owners in a sectional title scheme as well as the trustees. **(12)**

**PART C: 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**

- 1.4 Briefly discuss the difference between a feasibility study and a valuation. **(10)**

**PART E: EXPROPRIATION**

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 620 000.

**REQUIRED**

- 1.5 Calculate the total amount that will be payable including the solatium. **(5)**

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

You have just graduated from the University Of Johannesburg with Property Valuation Management as one of your majors. Recently one of your father's close friends had asked you to help him value a commercial property that he is interested in buying.

He has provided you with the following information on the property:

Erf 2151, Cape Town, city of Cape Town  
63 Bree Street Cape Town

Date of Valuation: 1 August 2016

Zoning: Mixed Use 3

General valuation: R2 500 000

2013/2014 rates Tariff: 0.0118

Date of escalation: 1 Aug 2017

Escalation rate: 8%

Management fee: 3% of the Effective Gross Income

Monthly expenses:

Insurance: R4 328

Repairs and maintenance: R 684

Cleaning: R1 330

Meter reading: R 450

Security: R1 600

**Additional comments:**

- There is good demand for office and retail accommodation in this node.
- Bree Street is developing as a popular commercial hub, within the Cape Town CBD.
- The building is in good condition and has been well maintained over the years.
- Inflation in expenses is forecast to be 7% per annum.
- The building will need to be repainted in Year Two, therefore a capital expenditure allowance of R100 000 must be provided for.
- There is no need to include any leasing commissions or tenant installation allowances.

Rent Roll:

Tenant name and term	Size (SqM)	Rent	Renewal
Venture Capital 12/13 - 11/16	135	R1 130/SqM/year	Certain
ABA Mortgages 1/14 - 12/18	235	R1 130/SqM/year	Certain
Real estate RUS 4/15 - 3/19	185	R1 400/SqM/year	Not certain

The lease agreement for Real estate RUS is not certain to be renewed, if it is not renewed the suite will be vacant for 6 months and a new market related rent of R1 450 will be negotiated with the new tenant.

Comparable sales:

The details of comparable sales noted below have been sourced from the Deeds Office and various property brokers were active in the sales. The properties noted below all compare favourably to the subject property in terms of location, exposure to passing trade and lack of parking.

	Sale 1	Sale 2	Sale 3	Sale 4
Erf number	2156	4758	2348	2697
Gross income	R 483 621	R 456 432	R 507 118	R 415 730
Expenses	R 63 081	R 82 307	R 80 968	R 58 880
Sales price	R 4 300 000	R 3 650 000	R 4 500 000	R 3 900 000
Date of sale	18/03/2016	16/07/2016	26/06/2016	29/12/2015
Comments	Similar quality, smaller extent	Inferior quality, larger extent	Similar quality, similar extent	Superior quality, similar extent

**REQUIRED**

- 2.1 Calculate a suitable discount rate that can be applied in the valuation process of the above property. **(15)**
- 2.2 Determine the potential Gross income for property for the first 3 years. **(15)**
- 2.3 Discuss 3 factors with practical examples that can increase the risk of the subject property. **(10)**

### **QUESTION 3**

**[20 marks]**

#### **Specialised Properties – I.V.S. 6.4**

Both the I.V.S. and I.A.S. 16 recognise the categories of assets for which market based evidence may be UNAVAILABLE because of their specialised nature and recognises

- depreciated replacement cost approach, and
- income approach to value.

The choice of approach is not dictated by the type of asset but by the presence or absence of market evidence.

The availability or lack of market evidence goes to a number of considerations such as design, specialised application, location, size, funding, etc. where evidence does not fit the profile of the subject property or has to be disregarded.

#### **REQUIRED**

Discuss 5 sections of the valuation report as it would specifically relate to petrol/fuel stations in contrast to a school.

**(20)**

## **QUESTION 4**

**[20 marks]**

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**

- 4.1 Discuss how Government policy as a macroeconomic factor can have an impact on farm values. **(10)**
- 4.2 Discuss how topography and water resources as microeconomic factors can impact on farm values. **(10)**

**QUESTION 5**

**[20 marks]**

A servitude is a real right which one person may have over or in respect of immovable property belonging to another. It is, therefore, the right of a person to do something to or in respect of land which only the owner of the land normally has the right to do. Because of the existence of servitude in favour of a person who is not the owner of the land, that person may do something to or in respect of the land and the owner may not prevent him from doing so.

**REQUIRED**

- 5.1 Briefly discuss the difference between a personal and a predial servitude with applicable examples to illustrate the differences. **(10)**
- 5.2 Describe five ways in which a servitude can come into existence. **(10)**

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