



UNIVERSITY
OF
JOHANNESBURG

Department of Finance and Investment Management

Property Portfolio Management

PVM06X7

LAST ASSESSMENT OPPORTUNITY

NOVEMBER 2016

Time: 3 hours

Marks: 150

Assessors: Mr M Booyens

Moderators: Miss J De Beer

INSTRUCTIONS:

- This paper consists of **6** 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	Portfolio, management and marketing	100	120 minutes
2	Leases	25	30 minutes
3	Portfolio decisions	25	30 minutes
		150	180 minutes

QUESTION 1**[100 marks]**

Consider the following three properties:

Property 1: Seba Camp - Botswana

The Okavango Delta is an inland delta formed where the Okavango River meets the basin of the Kalahari Desert. Once part of the ancient lake Makgadikgadi, the Okavango delta is home to diverse ecosystems and a plethora of wildlife. Contrary to popular belief, it is not the largest inland delta in the world but it was named one of the Seven Natural Wonders of Africa in 2013. Chief's Island, the largest of the islands in this flat delta region, plays home to much of the resident animal life that includes leopard, wildebeest, lion, kudu, rhinos and warthog, to name but a few. The endangered African Wild Dog is also found here, along with over 400 species of birds and over 70 species of fish. The lechwe antelope is the most abundant in this region.

The greenery in the delta can be attributed to the fact that the delta is an oasis and can support the growth of plant life. It is truly one of the most spectacularly beautiful places in the world and it's no wonder that it's considered one of the most rewarding safari destinations in Africa. Experience the magic and wonder this continent has to offer on an expertly-guided safari, where you'll discover the perfect opportunity to connect with the land and all its resplendent fauna and flora. Photographic opportunities are endless.

Seba Camp, set in an ancient riverine forest in the heart of Botswana's magical Okavango Delta, offers secluded, luxurious accommodation overlooking a lagoon and seasonal floodplain teeming with animal and bird life. Guests can enjoy more than game viewing, however, as the camp is a base for unique research on elephant behaviour and a regular centre for wildlife filmmakers. It is named after Seba, a young bull elephant who was part of Randall Moore's pioneering elephant back safaris out of Abu Camp, a few kilometres away. Seba was released back into the wild where he joined up with other trained elephants released back into the wild by Moore.

The herd has chosen to remain in the vicinity of the camps. The interaction between the released elephants and the wild herds that traverse the area is providing a rich field for research teams from Bristol University in the United Kingdom. Guests at Seba are invited to observe firsthand the researchers at work, often in close proximity to the elephant herds. Seba Camp itself has five well-appointed and spacious elevated tents, designed specifically to blend in with the Okavango landscape. Each has its own en-suite bathroom and a private deck on which to relax and observe the passing wildlife in and around the perennial lagoon. The dining and bar areas are also set on a raised deck with spectacular views.

Trained guides are ready to advise on all aspects of the Okavango ecosystems in this, one of Africa's last remaining true wilderness areas.

Apart from the large elephant population, there is a seasonal abundance of game in the area including giraffe, zebra, impala, wildebeest, tsessebe and lechwe. A pride of lion frequents the greater area and their thrilling calls can sometimes be heard in the evenings. Large herds of buffalo are occasional visitors, too. For bird enthusiasts, some 380 different species are found in the region. During winter, thanks to the high water levels, Seba is transformed into a water camp, with water-based activities taking precedence, such as mokoro and motorboat excursions and fishing, as well as walks and the usual game drives.

Access to Xigera is by light aircraft only.

Property 2: Small Office park - Pretoria

Hesketh Drive Office park – Small office park

Fully tenanted office park for sale
Just off de Villebois Mareuil Drive
Three office blocks on three separate stands
Seller wants to sell Members Interest
No Transfer duties

Additional Information

Listing Type	Office
Vacancy Type	For Sale
Property Type	Commercial
Availability	Immediate
Sub-divisible?	No
Sale Price	R 10,600,000
Available Area	696 m ²
Parking ratio	5,7 bays per 100 sq.m. of office

Property 3: Holiday Home - Sedgefield

This house in Sedgefield is a great holiday home that is only 2 blocks from the lagoon, around the corner from the renowned Saturday market and 2km from any of Sedgefield's pristine beaches. This holiday home can comfortably accommodate 8 people in 4 bedrooms and 3 bathrooms, one bedroom being en-suite.

The home is fully furnished and equipped with Satellite TV (DSTV). It has air-conditioned open plan living areas downstairs with a kitchen, dining room and lounge with built in bar. This leads

out to a lovely patio, braai and fenced swimming pool. A guest bathroom is also situated downstairs.

Upstairs are 3 bedrooms with 2 bathrooms. The main bedroom is also air-conditioned with a double bed, the other bedrooms have twin beds with one leading out to a small deck. There is a separate guest room with its own en-suite bathroom on the ground floor with its own entrance. A double carport provides secure parking within the fully fenced spacious garden. Please note no smoking is permitted inside the house.

Sedgefield is centrally positioned on the Garden Route, only 15km from Wilderness, 20km from Knysna, 35km from George and an hour from Plettenberg Bay, Mosselbay and Oudshoorn. Thus making it an ideal central point for sightseeing. But, if you don't feel like travelling, just enjoy the four beautiful beaches that Sedgefield has to offer or go fishing, canoeing or boating on the lagoon. The Island in Sedgefield is a natural conservancy and one can enjoy abundant birdlife including hearing the Fish Eagles when they call whilst circling overhead by the lagoon.

REQUIRED:

- 1.1** Critically analyse whether and how you would combine the above three, or combination of, properties in a property portfolio. Your discussion need not include calculations or a valuation but should rather include, but not be limited to, issues relating to risks, diversification etc. **(50)**
- 1.2** Develop a management plan for property 1 that will ensure a smooth relationship between owner and management. Your answer should address responsibilities, the agency problem and different reports for efficient management relationship. **(25)**
- 1.3** For each of the three properties above discuss to marketing techniques that will be most effective in renting the property out should they be included in your portfolio. **(25)**

QUESTION 2

[25 marks]

CARTOON 1



"Here is the land-based point information, Fair Housing criteria, laws regarding tobacco use outdoors, slip-and-fall warning, and, barring any further public hysteria, the lease itself."

CARTOON 2



"I agree, money can't buy happiness, but we may be able to lease it."

CARTOON 3



© 2004 by the author and the artist.

REQUIRED:

Consider the above cartoons which all relate to leases and then discuss the following issues regarding leases:

- Responsibilities of the landlord (cartoon 1)
- Four (4) different types of lease escalation types (cartoon 2)
- Responsibilities of the tenant (cartoon 3)

(25)

QUESTION 3

[25 marks]

When making the decision on whether to include a property into your portfolio or not you are faced with the task of analysing financial information to aid you in making the decision.

There are a number of techniques and tools to your disposal to make these decisions.

REQUIRED:

- 3.1 Discuss how the Profitability index (PI) and Modified internal rate of return (MIRR) are used to make these decisions. **(10)**
- 3.2 Compare the use of the NPV and the PI to rank different investment properties. **(5)**
- 3.3 Explain why the MIRR is an improvement on the IRR. **(5)**
- 3.4 List and briefly discuss two methods that can be used to determine the risk of investing in a specific property. **(5)**

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