



UNIVERSITY
OF
JOHANNESBURG

Department of Finance and Investment Management

Advanced Property Valuation & Management B PVM8X02

LAST ASSESSMENT

November 2018

Time: 3 hours

Marks: 150

Assessor: Mr A Kruger

Moderator: Mrs M Naidoo

INSTRUCTIONS:

- The paper consists of 18 pages (front page included).
- Silent, non-programmable calculators may be used.
- Clearly show all calculations.

Question	Topic	Marks	Time
1	Multiple choice questions	50	60 minutes
2	Valuation of leaseholds	50	60 minutes
3	Valuation of wasted assets (Mining)	50	60 minutes

150

180 minutes

QUESTION 1

(50 MARKS)

REQUIRED:

Select the correct option by shading (●) the appropriate letter on the **scanner sheet** provided.

- 1) The conclusion of the highest and best use should not be stated in terms of...?
 - a. Uses
 - b. Buyers and tenants
 - c. Timing for uses
 - d. Market participants

- 2) Which of the following affects real estate supply?
 - a. Purchasing power
 - b. Desire for real estate
 - c. Current interest rates
 - d. New construction activity

- 3) Which of the following statements is correct with regard to real estate markets?
 - a. Supply and demand are always in balance.
 - b. Supply reacts more slowly to changes in the market than demand.
 - c. Price and value are never similar.
 - d. Demand reacts slowly to market changes.

- 4) A mortgage is a?
 - a. Document that makes a borrower promise to repay the money
 - b. Document that gives the interest rate and terms of a loan
 - c. Pledge of collateral for a real estate loan
 - d. Pledge of collateral for a car loan

- 5) When a property is not what the market demands, this may violate which economic principle?
- a. Anticipation
 - b. Opportunity cost
 - c. Conformity
 - d. Regression
- 6) Real property consists of?
- a. Rights in property
 - b. Land and all improvements thereon
 - c. The right to use or occupy property
 - d. Single-family residences
- 7) A neighbourhood is?
- a. A residential suburb
 - b. An area with similar zoning and density
 - c. A group of complementary land uses
 - d. An area with homes of the same price
- 8) In a market value appraisal, land use regulations
- a. Must be researched
 - b. Can be researched
 - c. Should be researched
 - d. Can be ignored if the owner makes a request
- 9) Servitudes are another division of property rights. They usually give the right?
- a. To cross over another person's property without permission
 - b. To access the property to perform a specific service
 - c. To use the property during the term of the lease to a tenant
 - d. To re-enter the property if the payments are not made on time to a lender

- 10) Investment value is best measured by?
- a. Market price to a specific investor
 - b. Market value to a specific investor
 - c. The cost of acquiring a competitive substitute property with the same utility to a typical purchaser
 - d. The present worth of anticipated future benefits to a specific investor
- 11) The first step in the valuation process is
- a. Identification of the appraisal problem
 - b. Application of the approaches to value
 - c. Review of market data
 - d. Selection of an appropriate unit of comparison
- 12) Real property includes?
- a. Any and all building on the subject site
 - b. All interests, benefits and rights inherent in the ownership of property
 - c. The physical land and improvements affixed to the land
 - d. Property that is not artificial
- 13) Market area life cycles include?
- a. Growth, stability, decline, and revitalization
 - b. Growth, stability, decline, and gentrification
 - c. Growth, stability, appreciation, and decline
 - d. Growth, level off, appreciation, and decline
- 14) Which of the following is an example of a municipal land use regulation?
- a. A lease document signed by the owner and lessee
 - b. A city zoning ordinance
 - c. A city ordinance regulating automobile speed limits on the adjacent street
 - d. A national law focused on employment contracts
- 15) A lender asked a valuer to prepare a valuation report on a 2.2-acre site with a proposed single-tenant industrial building. The lender requested a value estimate as

of today, which the valuer provided via comparison with vacant land sales. The lender also requested a value opinion as if the structure were completed. This is an example of

- a. An extraordinary assumption if the date of appraisal is today
- b. A hypothetical condition if the date of appraisal is one year from now
- c. An unethical appraisal because the building is not in place
- d. A hypothetical condition if the “as completed” value is dated as of today

16) A lease?

- a. Must be for at least one year
- b. Conveys the right of occupancy to another
- c. Must include the landlord paying the taxes
- d. Does not affect the valuer since it does not affect the saleable interest

17) In the valuation process, defining the value estimated is included in the?

- a. Definition of the problem section
- b. Preliminary analysis and data selection and collection
- c. Highest and best use analysis
- d. Land value opinion

18) A valuer is developing a real property valuation for a local bank for an improved, owner-occupied restaurant property. The restaurant is a sit-down, white-tablecloth operation with an expensive menu. The owner/applicant thinks his property value is enhanced because of the success of his restaurant within the facility due to his superior menu, so he makes a pitch to the valuer about gross income from food sales. This owner is

- a. Correct in his pitch because the success of the business will enhance the property value
- b. Correct in his pitch only if the business shows long-term income growth from food sales
- c. Incorrect in his pitch because food sales income is considered to be too speculative and difficult to value
- d. Incorrect in his pitch because the owner is confusing the real estate value with the intangible (business enterprise) value

19) The right of government to take private property for public use with payment of just compensation is known as

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MODULE: Advanced Property Valuation and Management A (PVM8X02) (LAO – Nov 2018)

- a. Escheat
 - b. Condemnation
 - c. Titular ownership
 - d. Expropriation
- 20) Which of the following items are usually classified as real estate?
- a. Furniture in an occupied house
 - b. Plumbing fixtures in an occupied house
 - c. Trade fixtures in a factory
 - d. Beds and other furniture in a hotel
- 21) Gentrification is?
- a. A class of citizen who live in blighted areas
 - b. A process in which older homes in a neighbourhood are remodelled and different residents replace the lower-income residents
 - c. A group of complementary land uses
 - d. A part of the life cycle of a market area in which property values are stable and the maintenance levels are adequate
- 22) A valuer is asked to prepare an opinion of market value for a property without having access to the interior of the residence. This valuation
- a. Has been limited by the definition of value
 - b. Has been limited by the amount of the fee
 - c. Is unethical and potentially misleading
 - d. Is limited by the scope of work
- 23) Important characteristics of a new subdivision includes:
- a. Zoning, infrastructure
 - b. Private planning for growth
 - c. Public trends
 - d. Home restrictions
- 24) A good's capacity to satisfy human desires or needs is known as?

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- a. Creative demands
 - b. Utility
 - c. Functional obsolescence
 - d. Effective demand
- 25) Which of the following approaches is not part of the approaches to value?
- a. Cost
 - b. Renting property
 - c. Sales comparison
 - d. Income capitalization
- 26) Which party does the landlord look to for payment of rent in a sublease arrangement that does not have any other agreement in place?
- a. The sub lessee
 - b. The grantor
 - c. The lessee
 - d. The government
- 27) Which of the following is not an appropriate market/marketability analysis for the valuation problem?
- a. Trend analysis
 - b. Economic base analysis
 - c. Feasibility analysis
 - d. Market and marketability studies
- 28) Land valuation techniques include?
- a. Subdivision development, depreciated cost, consensus
 - b. Sales comparison approach, consensus, extraction
 - c. Sales comparison approach, allocation, extraction
 - d. Assessment multipliers, assessor's opinions, multiple regression multipliers
- 29) Raw land is:
- a. Land on which no improvements have been made

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- b. Land in its unnatural state
 - c. Land that has been improved
 - d. Information on the characteristics (physical) of the site
- 30) The value of a property to a particular user is known as?
- a. Market equal to cost
 - b. Value in exchange
 - c. Use value
 - d. Leasehold value
- 31) Environmental considerations include which factor amongst others:
- a. Lack of air quality
 - b. Local climate
 - c. Unavailability of satisfactory water supply
 - d. No pattern of drainage
- 32) Which of the following is not used to classify residential properties?
- a. Time share
 - b. Full title
 - c. Sectional title
 - d. Size and age
- 33) What should not be included in inspection of exterior superstructure?
- a. Roof and drain system
 - b. Ventilation
 - c. Piles and columns
 - d. Insulation
- 34) Which of the following is not a data process?
- a. Data collection

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- b. Data control
 - c. Data organisation
 - d. Data analysis
- 35) Details about the property being appraised, comparable sale and rental properties, and relevant local market characteristics are?
- a. Specific data
 - b. General data
 - c. Competitive supply and demand data
 - d. Property data
- 36) Which is not a local economic trend?
- a. Change in population
 - b. Change in wage rates
 - c. Change in household income
 - d. Change in interest rates
- 37) Population, wage rates, net household formation are an example of which trend?
- a. International Trends
 - b. Local Economic Trends
 - c. National Trends
 - d. Economic trends affecting rural land
- 38) costs can alter the quantity and character of demand in the real estate submarkets?
- a. Construction Costs
 - b. Services Costs
 - c. Trend Costs
 - d. Supply and Demand Costs
- 39) A market characterized by growing demand, a corresponding lag in supply, and an increase in prices:
- a. Weak market

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- b. Active market
 - c. Buyer's market
 - d. Sellers market
- 40) The point in a property's life when it has reached a level of utility commensurate with supply and demand:
- a. Stabilization
 - b. Market segment
 - c. Fundamental point
 - d. Economic point
- 41) Interior description involves?
- a. Electrical systems
 - b. Attached equipment
 - c. Air conditioning and ventilation
 - d. Painting decoration and finishing
- 42) Which one is not a basic conditions that needs to be met when establishing a township?
- a. Restrictive title deed conditions must be cancelled
 - b. The necessary servitudes must be registered.
 - c. If the land is proclaimed mining land, it must either be de-proclaimed or reserved for township purposes.
 - d. a 600m² park must be provisioned for.
- 43) The purpose for which an urban property may be used is controlled by?
- a. The government
 - b. The owner
 - c. Town planning scheme
 - d. The local municipality
- 44) Which is not included in the contents of a town-planning scheme?
- a. Provisions contained in scheme clauses;

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- b. Description of the land to which the scheme relates;
 - c. The local recommended builders number
 - d. The scheme maps, annexures or schedules in respect of the land to which the scheme relates.
- 45) Which of the following are elements of a building description?
- a. Site size and shape; or
 - b. The building size, plan and construction; or
 - c. Excess land and surplus land; or
 - d. All of the above.
- 46) Major equipment and mechanical systems include which of the following?
- a. The plumbing and electrical system; or
 - b. The heating; ventilation and air conditioning system, plumbing and electrical system; or
 - c. Property product analysis as well as the heating; ventilation and air conditioning system; or
 - d. None of the above.
- 47) The conclusion of highest and best use should be clearly stated in terms of:
- a. Use(s)
 - b. Timing for use(s)
 - c. Market participants
 - d. All of the above
- 48) Which of the following situations are not addressed in identifying and testing highest and best use?
- a. Single use
 - b. Mixed uses

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- c. Special-purpose uses
 - d. Communal use
- 49) Which one of the following is NOT one of the four steps applied to develop adequate support for the appraiser's highest and best use:
- a. Maximally productive
 - b. Financially feasible
 - c. Physically possible
 - d. Maximally profitable
- 50) With any improved property, there are three possibilities that must be considered:
- a. Demolish and redevelop
 - b. Do not continue existing use
 - c. Modify
 - d. Continue existing use

QUESTION 2

[50 MARKS]

Waterfall Estate is an exciting development just north of the Jukskei River in Midrand. The article below provide an over view of the lease agreement signed when a residential property is bought in the development.

THE LEASE AGREEMENT ON THE WATERFALL DEVELOPMENT FOR RESIDENTIAL PROPERTIES:

The lease explained:

When looking to build a house of Waterfall, it must be noted that properties are not owner in freehold, but are held by a long term lease (registered for an initial period of 99 years), and this ownership structure applies throughout the Waterfall development.

The ownership structure is aimed at giving the occupier rights which are similar to the rights of an owner of a full title or sectional title purchase.

What this means is that purchasers are in essence buying limited rights to the land and have the right to occupy the stand, as per the lease agreement, for the period prescribed in the agreement (99 years) and the lease is capable of an infinite number of extensions, each extension restoring the lease period to 99 years.

Although this is not a common form of asset ownership and practice in South Africa, the long term lease is a viable and proven form of residential property ownership recognised and used globally and will still provide you the assurance and ownership security you are looking for.

How it works?

On the initial registration of the lease agreement, the lessee pays to the lessor a once off upfront lump sum lease amount, for the right to occupy the land as per the agreement for a term of 99 years. The lease term commences on the date of registration with the option (at the election of the lessee) to renew or extend the lease term.

The lease is registered (in the office of the Registrar of Deeds in Pretoria) in the form of a notarial deed, against the title of ownership by the lessor (the person letting the property) in favour of the lessee (the person to whom the property is let).

This awards a great deal of protection for the lessee because he/she is ensured of a legal entitlement to enforce his undisturbed right of use and enjoyment over the property within the rules and regulations set by the home owners association.

Should the lease consideration payable to the lessor be financed, it can be done through a financial institution of the lessee's choice. To ensure the rights of the bank (as they are initially funding your purchase), and those of the lessee, are protected, we've consulted with the Banking Council of South Africa and negotiated various conditions contained in the agreement.

Any permanent improvements to the land form part of the land and thus the lease agreement.

Such a type of property agreements of course leads to the questions of **'What happens when you want to sell the property?'**

Just like any asset, it can be exchanged for compensation. In this case, like any form of property, it's dictated by market value or what someone is prepared to pay for it on any given day. Whether with the assistance of an agent or privately done, the seller and the purchaser of the lease rights must agree on a price (including the extension fee of 3.5% (plus VAT)). The lease term is then to be extended back to 99 years (by the seller and the lessor) and then the seller can cede his/her rights (to the 99 year period) to the purchaser. The extension of the lease period and the cession of the lease rights are registered simultaneously in the deeds office. Like the transfer of a freehold property, the seller is required to settle all outstanding, levies, rates, taxes and municipal charges relating to the leased property

On that registration, the extension fee is paid to the Lessor, being the Waterfall Country Estate Wuqf (Proprietary) Limited.

A benefit of this arrangement is that transfer duties are not applicable to the deal and thus allows a more favourable purchase price to be negotiated by both parties. Furthermore, generally the transaction time from signature of the sale agreement to registration in the deeds office is much quicker than in the case of a freehold or sectional title property.

Required:

Discuss the valuation of a leasehold interest with specific reference to the advantages and disadvantages of the discounted cash flow approach to valuing a leasehold interest and how it differ from a leasehold in Waterfall Estate.

QUESTION 3

[50 MARKS]

South Africa is known for its gold mining and the deepest gold mines in the world. In the last couple of years mining has become a contentious issue and are not as profitable as it used to be.

Thousands of zama-zamas receive mining permits

Sibongile Khumalo 07 Jun 2018 07:00



Lucky Seekoei heads the Northern Cape Artisanal Miners' Association, which is pushing for the recognition of informal miners. (Paul Botes/M&G)

COMMENTS

Thousands of illegal diamond diggers will on Thursday be granted a mining permit by the department of mineral resources as part of a plan to formalise the trade which is draining the industry, according to Deputy Mining Minister Godfrey Oliphant.

After years of illegally extracting diamond fragments from a mining site owned by the Kimberley Ekapa Mining Joint Venture, the Kimberley Artisanal Mineworkers will finally be recognised as a legal mining cooperative.

“This is a major milestone for both the mining group and the miners who for a long time have been seen as illegal miners,” said Oliphant.

“This came after lengthy consultations between all the parties, including the provincial government of the Northern Cape,” Oliphant told Fin24.

Oliphant estimates that illegal mining in the gold sector alone costs companies over R70-billion a year.

Ekapa Mining has made available about 400 hectares of land to the group, where they have dug deep furrows and holes in search for diamonds, using makeshift tools.

Historic achievement

Oliphant hailed the partnership as a “historic achievement for the community”.

“This is just one way of dealing with the scourge of zama-zamas; we are saying by issuing them with permits, we are giving them a legal platform to better themselves.”

He stressed that the department would not grant permits to underground illegal miners who damage the structures of old shafts and compromise safety.

It will be the second permit to be issued by the department, in what is described as an attempt to root out rampant illegal activity around the country.

Armies of illegal miners have invaded disused shafts across the country, which sometimes leads to deadly underground incidents and clashes with the police.

READ MORE: God’s tears add a sparkle to zama-zamas’ lives

Oliphant said dire economic factors such as unemployment are some of the reasons for the scourge of illegal mining.

“Most illegal miners are experienced mineworkers who used to work in the mines and they know what they are doing,” said Oliphant.

He said the process would also allow them to openly sell their diamonds on the market and avoid exploitation by third parties, in violation of the Kimberley Process.

He narrated a case where zama-zamas found a 55 carat diamond, which they sold for R6-million on the black market. The person who bought the diamond then sold it for R33-million.

Lucky Seekoei, spokesperson of Kimberley Artisanal Mineworkers, said there are over 2 000 diggers in the cooperative scheme and that the activity has been going on for 16 years.

“We are quite elated about being given a permit; the process has completely changed the mood among ourselves as many more people had given up due to the difficulties of the job,” said Seekoei.

“It’s a historic moment for us, and we are going to make sure that we make this operation a sustainable business for ourselves,” he added.

Winner takes all

He said sometimes the diggers would go for months without picking up anything, while others would have much more luck.

Previously, the person who made the discovery would have to find a buyer on the black market.

“People usually work in small groups, and they share the profit of whatever is found,” he said.

The Minerals Council, formerly known as the Chamber of Mines, said illegal mining activities undermine companies’ efforts to close shafts, as the diggers often reopen sealed shaft entrances.

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Mining analyst Peter Major was however sceptical about the move to legalise zama-zamas, saying a more comprehensive policy of dealing with the causes of the illegal mining challenge is needed.

“I will have to wait and see how this development will work out,” said Major.

— News 24

Required:

Describe the valuation of wasting assets with specific reference to gold mining.

TOTAL

150