



## Department of Finance and Investment Management

# Property Portfolio Management

PVM06X7 / PPM8X02

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### LAST ASSESSMENT OPPORTUNITY

### NOVEMBER 2019

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**Time: 3 hours**

**Marks: 150**

**Assessors:** Mr M Booyens

**Moderators:** Mr R Fuchs

#### INSTRUCTIONS:

- This paper consists of **4** 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	75	90 minutes
2	Property management and risk	35	42 minutes
3	Property Management and agents	40	48 minutes
		<b>150</b>	<b>180 minutes</b>

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

Consider the following three properties types:

**Property 1:**

Housing cooperatives are owned by the residents. This can range from a single house to apartment complexes with thousands of units. It also includes co-housing projects, in which dozens of homes are cooperatively owned. Condominiums are a relative of coops, although with condos each member owns their own unit; in a cooperative, each member owns a share of the co-op that owns all of the property.

**Property 2:**

Petrol Express located in Malvern, Durban is a petrol filling station and automotive service shop offering basic automotive maintenance and repair services, including vehicle safety inspections. The facility is owned and operated by Jack Smith and is located at the intersection of Anywhere and Sideways Streets. An empty lot sits adjacent to the back of the facility. A concrete storm drainage channel runs past one side of the empty lot and conveys storm water into an unnamed stream about a ¼ km downstream from this location.

**Property 3:**

Marina Casino, located in the Marina district of East-London, the Marina features 728 guest rooms, including 153 suites, 97 of which are luxury suites, 2 430 square metres of gaming space housing 2 545 slot machines, 76 table games, a simulcast racetrack facility and approximately 1 530 square metres of convention, ballroom and meeting space.

**REQUIRED:**

- 1.1 Critically analyse whether and how you would combine the above three, or combination of, property types 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, potential management issues etc. **(50)**
- 1.2 Develop a **bullet format** 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)**

## **QUESTION 2**

**[35 marks]**

The subject property is a restaurant/wedding venue in the West Rand named Casalinga. Casalinga is the inspiration of Peter and Jenny De Luca. In 1989, they extended their Muldersdrift home to create a magical, traditional Italian restaurant with a time-honoured country feel.

The couple designed and built the beautiful rustic building themselves, using historic hardwood pieces, tiles, artefacts and stained - glass windows reclaimed from demolished houses on the Randfontein Gold Mining estate. Rich, eclectic furnishings were added to capture an elegant, relaxed atmosphere and to complete this graceful setting.

Casalinga is an elegant Italian country restaurant in Muldersdrift, off Beyers Naude Drive, Johannesburg is the Ideal setting for tasteful business luncheons and dinners, corporate function or intimate dinners for two. Casalinga's delicious fare has established it as one of Gauteng's leading restaurants for the past twenty two years. Seating up to 350 guests the beautiful setting, classic Italian architecture, fragrant flowers and breathtaking views give Casalinga a different appeal – relaxed, yet undeniably elegant. In total we offer five different dining areas, most of which can be interlinked.

Casalinga is also BBE accredited and is a level five contributor.

Awards: Winner Best of Joburg 10 years Awards – Most Romantic Restaurant, Best Sunday Lunch and Best Alfresco Dining.

### **REQUIRED:**

Consider the above property. Discuss THREE different risks for the property that you identify from the scenario.

You should have THREE **different** risks for the property. Identify each risk, discuss the risk and discuss how this risk could impact on a portfolio of an aggressive investor and how the property manager can address these risks.

**(35)**

### **QUESTION 3**

**[40 marks]**

**Investopedia gives us the following definitions:**

#### **Property Management**

The administration of residential, commercial and/or industrial real estate. Property management typically involves the managing of property that is owned by another party or entity. The property manager acts on behalf of the owner to preserve the value of the property while generating income. Managed properties include residential and vacation properties, commercial retail space or industrial warehouse space. Property managers are typically paid a fee and/or a percentage of the rent brought in for the property while under management.

#### **Agency Theory**

A theory concerning the relationship between a principal (shareholder) and an agent of the principal (company's managers).

#### **Marketing**

The activities of a company associated with buying and selling a product or service. It includes advertising, selling and delivering products to people. People who work in marketing departments of companies try to get the attention of target audiences by using slogans, packaging design, celebrity endorsements and general media exposure. The four 'Ps' of marketing are product, place, price and promotion.

#### **REQUIRED:**

Consider the definitions above and evaluate how a proper management plan and marketing strategy can contribute to overcome the agency problem and reach the objectives of owner and management.

**(40)**

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