



Department of Finance and Investment Management

Property Portfolio Management

PVM06X7 / PPM8X02

REPLACEMENT LAST ASSESSMENT OPPORTUNITY

JANUARY 2020

Time: 3 hours

Marks: 150

Assessors: Mr M Booyens

Moderators: Mr R Fuchs

INSTRUCTIONS:

- This paper consists of **7** 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	50	60 minutes
2	Property management	50	60 minutes
3	Cash Flow	50	60 minutes
		150	180 minutes

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

The property is a 25 year old block of flats that is situated in an old neighbourhood. There has however been an increase in demand for flats in the area, but for flats that are modern. The building needs very little maintenance and has been kept neat.

Property 2

The property is a piece of vacant land that is on the outskirts of the city. The urban development is creeping towards the property with more and more developments taking place on the expanding limits of the city. The developments are of all property types. There is however a piece of wetland that is on the property. The largest portion of the property is however not part of the wetland.

Property 3

The property is an old water purifying plant. It has not been in use for the last 5 years. He is an engineer and has a passion for this water industry. He believes that the potential of the property is huge. Especially as some other water purifying plants have been failing test done by the department.

An investor wants to invest in all three the above properties. He has heard that it is wise to invest in property and to diversify. Help him to develop a portfolio management strategy to ensure an effective investment.

ADDITIONAL INFORMATION**Marketing**

The property market has seen significant growth in recent years and this is largely due to new property developments that are being introduced, with the majority of these consisting of residential developments.

When it comes to property development, effective marketing efforts are absolutely essential. Together with the buying process, marketing is a very important aspect in new property developments and this will help to secure quality tenants and allow for the best possible transaction environment between buyer and seller.

Source: <http://www.kentgush.co.za/new-property-developments/effective-marketing-for-new-property-developments/>

Management plan

You need to know that your complex funds are completely safe with us

Separate Trust Accounts: We are one of only a handful of Property Management companies in Gauteng which operate a completely separate trust account for each of our managed complexes or estates.

Credibility: We currently manage in excess of 350 separate Body Corporate and Homeowners Association trust accounts.

Complete Transparency: An individual trust account offers multiple benefits to our clients, the most important of which is complete transparency.

One of the major issues with Estate Management Agents placed under liquidation over the past year was that payments appeared on their "disbursement statement", but were never actually made. Our process is so transparent that this cannot happen, and our individual trust accounts allow Home Owners Association Directors and Body Corporate Trustees full access to bank statements and reports.

Full Access: Our online facility allows Directors and Trustees to access monthly bank statements, creditor documents, budgets and financial statements at any time.

Available Funds: Your money is always available to you, as is the interest you earn on your balance.

Source: http://www.angor.co.za/why-choose-angor-property-specialists/?qclid=Cj0KEQjw4uSqBRDZveXz9M-E1aoBEiQA2RMP6hEru46-ypCE1iAMk-eVO-1qYS2jaz7t_Ht4SGcpe9qaApMR8P8HAQ

Investment decision making

Within the process of property investment decision-making, increasing attention to the relationship between sustainability and business growth. The terms 'sustainability' refers to the relationship between environment protection and the economic development related with the industry society (Ratcliffe et al, 2009). As well as, property industry is considering of the business development with responsibility of social and environment. Furthermore, the increasing demands for property assets and investment opportunities that comply with the principle of sustainable development. This concept also discussed by McNamara (2005) the environmental friendly building will become more desirable property asset in future years even if it is not reflected in their current value. Therefore, sustainability development is taking in to account of the real estate company business context.

Source: <http://www.ukessays.com/essays/property/property-investment-decision-making.php#ixzz3DYb4Xi80>

Property Risk

Property risk can be defined as: The possibility of financial loss occurring as the result of owing a real estate investment. Property risk might arise from such things as liability, legal issues, partner problems that can force a sale, fire or theft, loss of rental income and purchasing property with an imperfect title.

Source: <http://www.businessdictionary.com/definition/property-risk.html#ixzz2q54bZl00>

REQUIRED:

Consider the scenario above and the additional information given. Discuss a portfolio management strategy to ensure that the optimal return is generated from the portfolio. You may use the additional information to generate ideas but this should not be the base of your question.

Your discussion should include a discussion on the following elements:

- Putting a management plan in place
- Developing a marketing strategy using advertising boards and the internet
- Risks identified and
- Performance measures you will consider in analysing the investments. **(50)**

QUESTION 2**[50 marks]**

Consider the 3 properties below and answer the questions that follow.

Office property

A brand new office block with a 5 star green rating from the South African Green Building Council. It is a premium office block catering for blue chip tenants. There is open office space as well as private office space available. There is a common entrance that can be used by a single or multiple tenants.

Retail property

A strip shopping mall that is currently being renovated with the façade and frontage of the mall being modernised. There is one anchor tenant and 15 smaller tenants that range from hairdressers to take away shops to small branches of the major banks.

Residential property

A single residential property in a modest neighbourhood. It has 3 bedrooms and two bathrooms and is rented by a family. It is in a boomed off area but there has been some break-ins. The lease agreement is on a year to year basis.

REQUIRED

- 2.1 Highlight the differences in how the 3 above properties will be managed by specifically addressing the duties of the property manager and the owner. **(20)**
- 2.2 Briefly discuss 5 financial issues that would need to be addressed in a management proposal for an industrial property. **(10)**
- 2.3 Discuss the potential of combining the above three properties into a portfolio. **(20)**

QUESTION 3**[50 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 September 2018

Zoning: Mixed Use 3

General valuation: R2 500 000

2017/2018 rates Tariff: 0.0118

Date of escalation: 1 Sept 2019

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 12/15 - 11/19	135	R1 130/SqM/year	Certain
ABA Mortgages 1/17 - 12/20	235	R1 130/SqM/year	Certain
Real estate RUS 4/18 - 3/22	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.

REQUIRED:

3.1 Consider the information given above and compile a cash flow report that you as a property manager would present to the owner.

HINT – you are not asked for a valuation but for a cash flow report. (20)

3.2 Discuss how lease agreements that are up for renewal in the near future impact on the risk of a portfolio and discuss the measures a property manager can take to manage these risks. **(30)**

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